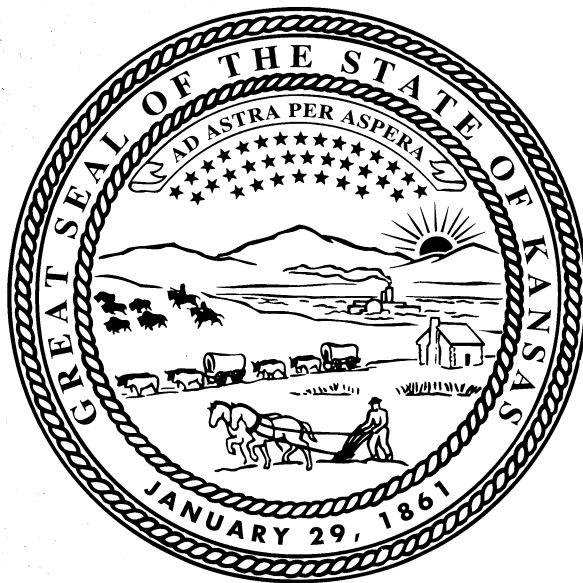


STATE OF KANSAS
Department of
Administration



Division of Accounts & Reports

ANNUAL FINANCIAL REPORT

A handwritten signature in cursive script, reading "Joyce H. Glasscock".

Joyce Glasscock
Acting Secretary

A handwritten signature in cursive script, reading "Dale Brunton".

Dale Brunton
Director

July 1, 2000 to June 30, 2001

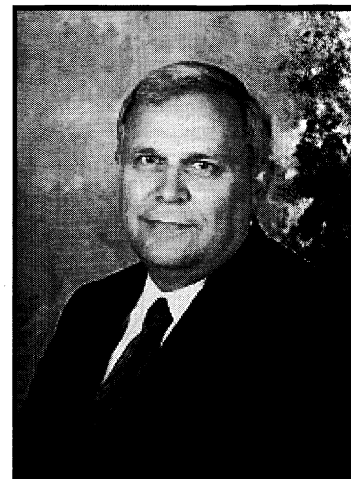
STATE OF KANSAS

Department of
Administration



*Joyce
Glasscock*

Acting Secretary
of
Administration



Dale Brunton

Director
Accounts & Reports



State of Kansas
Fiscal Year 2001 Financial Report
June 30, 2001

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INTRODUCTION



Kansas State Capitol



DEPARTMENT OF ADMINISTRATION

Division of Accounts and Reports

BILL GRAVES
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November 9, 2001

The Honorable Bill Graves, Governor of the State of Kansas,
Members of the Legislature and
Citizens of the State of Kansas:

It is my pleasure to submit to you the forty-eighth Annual Financial Report of the State of Kansas for the fiscal year ended June 30, 2001, as provided by Kansas Statutes Annotated (K.S.A.) 75-3735. This report is prepared by the Department of Administration, Division of Accounts and Reports. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State government and this office. The enclosed information is accurate in all material respects and is reported to present fairly the financial position and operations of the various funds and the general long-term obligations account group of the State of Kansas on a modified cash basis of accounting. All necessary disclosures to enable the reader to understand the State's financial activities have been included.

This report is presented in three sections. The Introductory Section includes this transmittal letter, the organizational chart and a listing of selected officials. The Financial Section includes the independent auditors' report, the combined financial statements and notes. The Statistical Section includes unaudited tables and financial trend information.

The State's combined financial statements include the funds and accounts of all organizational units of the State except Kansas Development Finance Authority and Kansas Technology Enterprise Corporation, which are outside the State Treasury. Note I.A. to the financial statements explains more fully which financial activity is excluded and the criteria used to define the State reporting entity.

ECONOMIC CONDITIONS

According to the Kansas Department of Human Resources Kansas Labor Market Information News Release for July 2001, employment in the State of Kansas for June 2001 was at its highest level since July 1999. Compared to June 2000 employment was up about 47,000. Modest gains were shown in most industries. The unemployment rate was 3.9 for June 2001 compared to 4.0 for last June and the seasonally adjusted national rate for June 2001 of 4.5 percent. The top 23 Kansas companies reported in year 2000 is shown in the Statistical Section of this report.

Kansas Department of Commerce and Housing reports that for year 2000 Kansas' per capita personal income was \$27,816 and ranks number 27 of all states. The national per capita personal income was \$29,676 in the year 2000. The cost of doing business index for Kansas is 92.0 when compared to the national average of 100.0.

The University of Kansas Policy Research Institute reports in the Kansas Economic Outlook, dated April 2001, that "job growth is expected to improve marginally in 2001 and 2002, although it will remain considerably weaker than during the 1996-1998 period." Personal income growth in 2001 and 2002 is expected to be 4.7 percent and 5.0 percent

respectively. These rates are lower than the 5.6 percent increase in 2000, but Kansans should still realize increases in real personal income.

SERVICE EFFORTS AND ACCOMPLISHMENTS

Kansas Savings Incentive Program

The Kansas Savings Incentive Program (KSIP) was established by the 1998 session of the Legislature for all State agencies. This program allows agencies to use up to 50.0 percent of prior year operating expense savings as current year money for the purposes of purchasing technology equipment, providing professional development training for employees and employee bonuses. KSIP was reauthorized by the 2001 Legislature providing for both the reappropriation of the prior fiscal year unexpended balances of KSIP accounts and the appropriation of 50.0 percent of the fiscal year 2001 (FY 2001) savings.

Agency Service Efforts and Accomplishments

Agencies have established criteria for measuring their service efforts and what they have accomplished. The Department of Education, Attorney General, Department of Transportation, Department of Social and Rehabilitation Services, and Department of Commerce and Housing were selected to demonstrate some of the accomplishments of the State government in fiscal year 2001.

Department of Education

- ***Funding Increases Approved by the Legislature for Public Education***

General State Aid – School District Base Budget

Under the State's school finance formula, each local school district's budget is determined by multiplying a base budget per pupil, set by statute, by its weighted enrollment. Districts may increase spending beyond the base amount by adopting a local option budget in an amount not to exceed 25.0 percent. The 1999 Legislature amended the law that establishes the base budget per pupil by approving a \$50 increase for the 1999-2000 school year and an additional \$50 increase for the 2000-2001 school year. From their base budget, or general fund budget, schools commonly fund the costs associated with serving general education students in regular programs. Expenditures include salaries for teachers, administrators and other personnel, transportation, instructional supplies, technology, utilities and maintenance.

Half-Day Early Childhood Program for Four-Year-Old At-Risk Children

It is generally accepted that early childhood education improves the cognitive performance of children in poverty. Early childhood education is found to produce persistent effects on achievement and academic success for children that exhibit at-risk factors. Differences in the amount of experiences children from welfare, average working class, and professional families encounter are profound. Children from enriched environments are able to add skills and knowledge more quickly than children from less enriched environments. The result is an achievement gap that increases through successive years of school.

Children who have high-quality preschool experiences have much less difficulty learning than children who have not been exposed to early education. When all children are enrolled in high-quality early education programs prior to entering elementary school, the chance for academic success is much greater. For the 2000-2001 school year, the Legislature appropriated an additional \$1.0 million to expand the four-year-old half-day education program for at-risk students by 436 pupils, from 1,794 to 2,230.

Parent Education Program

The underlying premise of the Parent Education Program is that new parents can be assisted in their role as their children's first teacher. The program helps parents work with their child as he/she grows and develops. The purpose is to lay a strong foundation for learning, thus preparing the child to enter school. Parents voluntarily enroll in this program and participate on a first come-first serve basis without consideration to income. The program serves parents with children up to three years of age.

Delivered by trained parent educators, the program centers around personal visits with parents and their children, preferably in the home, a practice which allows parent educators to tailor educational guidance to each family. Parent educators observe parent-child interaction, provide timely information on the child's development, and respond to each parent's concern. Parent educators are trained to screen for vision, hearing, and developmental delays and to suggest resources for follow-up if problems surface.

For FY 2001, the Legislature approved an increase of \$772,167, for a total of \$6,167,000, to fund the Parent Education Program. This increase allowed an additional 600 children and their families to be served.

Kansas Optometric Vision Study

Research indicates that 20 percent of children entering kindergarten have some form of vision problem and this percentage doubles to 40 percent by high school. A recent study revealed that for over ninety percent of poor readers, prevention and intervention programs and strategies will increase reading skills to at least average.

The purpose of this study is to (1) identify children with specific vision conditions that cause difficulty with reading and (2) investigate the effects of vision therapy on reading performance. Only conditions that cannot be corrected with glasses or contact lens and require intervention and treatment are studied.

The 1998 Legislature appropriated \$27,000 for the Kansas Optometric Association to conduct a pilot research project on the value of vision therapy on elementary students experiencing reading problems. During the first year of the study, the Optometric Association limited participation to students diagnosed with convergence insufficiency and below level reading skills. Students receiving treatment nearly doubled their ability to converge their eyes on near targets, the primary goal of the training. More importantly, reading skills for those students improved dramatically. Reading grade levels improved one entire grade from pre-treatment to post-treatment.

For FY 2001, the Legislature appropriated \$250,000 to increase the numbers of students receiving treatment and to expand the types of vision problems addressed including convergence insufficiency, convergence excess, accommodative insufficiency and ocular motor dysfunction. The Kansas Optometric Association will document its findings in a report that is to be submitted to the Legislature this fall.

- ***Unified School Districts***

ACT National College Entrance Test Scores

Kansas high school students continue to score above the national averages on the ACT national college entrance exam. In 2001, the composite score for Kansas students taking the test was 21.6 which tops the national average of 21.0. Kansas' results were even more impressive when compared to other states. This year 78.0 percent of Kansas seniors took the test and no other state with the same or higher percentage of students taking the test scored higher.

Another positive sign in this year's results was a significant increase in the number of students taking a "core" curriculum. The "core or more" program is defined as a typical college preparatory program and matches the qualified admissions requirements for Kansas Board of Regents schools. This year, nearly 68.0 percent of Kansas students participating in the ACT exam had completed "core or more" coursework, compared to 57.0 percent in 2000. That is important because students completing "core or more" coursework tend to score higher on the exam, increasing their chance of qualifying for the most selective schools. The percentage of Kansas students taking "core or more" coursework

now tops the national average of nearly 64.0 percent. In Kansas, students who completed “core or more” coursework had an average composite score of 22.6.

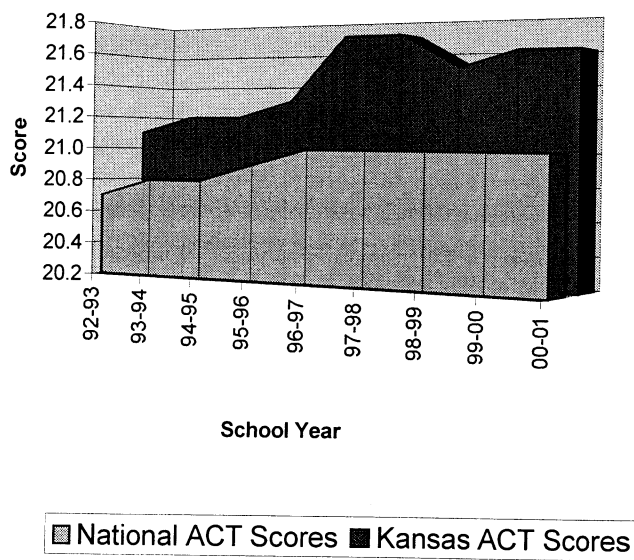
Kansas ACT Scores

Year	Number	English	Mathematics	Reading	Science	Composite
2000-01	24,380	21.0	21.2	22.1	21.7	21.6
1999-00	24,049	21.0	21.2	22.1	21.6	21.6
1998-99	23,210	21.0	21.0	21.9	21.4	21.5
1997-98	22,305	21.1	21.4	22.1	21.7	21.7
1996-97	21,162	21.1	21.1	22.2	21.8	21.7
1995-96	19,728	20.9	20.3	22.0	21.6	21.3
1994-95	20,274	20.7	20.3	21.9	21.5	21.2
1993-94	18,823	20.7	20.2	21.8	21.4	21.2
1992-93	17,909	20.7	20.3	21.7	21.3	21.1

National ACT Scores

Year	Number	English	Mathematics	Reading	Science	Composite
2000-01	1,069,772	20.5	20.7	21.3	21.0	21.0
1999-00	1,065,138	20.5	20.7	21.4	21.0	21.0
1998-99	1,019,053	20.5	20.7	21.4	21.0	21.0
1997-98	993,039	20.4	20.8	21.4	21.1	21.0
1996-97	959,301	20.3	20.6	21.3	21.1	21.0
1995-96	924,663	20.3	20.2	21.3	21.1	20.9
1994-95	945,369	20.2	20.2	21.3	21.0	20.8
1993-94	891,714	20.3	20.2	21.2	20.9	20.8
1992-93	875,603	20.3	20.1	21.2	20.8	20.7

Composite ACT Scores



SAT National College Entrance Test Scores

Kansas continues to chalk-up impressive academic achievements as evidenced by student scores on the SAT college entrance test. Again in 2001, Kansas topped national averages on the test which measures verbal and mathematical reasoning. This year, Kansas attained an average score of 577.0 on the verbal portion of the test, as compared to the national average of 506.0. Kansas scored 580.0 on math – well above the national average of 514.0. The three most popular intended majors of Kansas test takers in 2001 included health professions and allied services, business and commerce, and social sciences and history.

National Assessment of Educational Progress

Kansas students outscored the nation at both the fourth and eighth grades in their first time participating in the National Assessment of Education Progress (NAEP) mathematics examination. Results of the 2000 NAEP exam, released this past summer, showed that Kansas students in the fourth grade had an average scale score of 232, compared to the national average scale score of 226. At grade 8, Kansas students' average scale score was 284, while the national average scale score was 274.

The NAEP results mean that fourth grade students in Kansas perform as well as the top 17 states in the nation, and better than 29 other states or jurisdictions in the nation. At grade 8, Kansas' performance was better than 31 other states or jurisdictions, while only one state outperformed Kansas students. Kansas was one of only two states to be among the top performers at both grade levels.

Kansas Assessments

K.S.A. 72-6439 charges the Kansas State Board of Education with providing for testing at three grade levels in the core academic areas of mathematics, reading, science, social studies and writing. Reading and mathematics are tested every year, while the writing test is alternated each year with science and social studies. The 2001 assessment results represent the second year of results under the new tests for reading and mathematics. This was the first year the new science and social studies assessments were administered.

The 2001 State assessments are the first to include results of modified and alternate assessments, which are designed to assess students with disabilities significant enough that the students cannot participate in the general assessment without modifications. As a result of implementing the modified and alternate assessments, participation rates in all subject areas increased. For example, in Grade 11 reading for students with disabilities, participation rates jumped from a low of 76.0 percent in 2000 up to 92.0 percent in 2001. The elementary and middle school rates of participation for all students are over 98.0 percent in 2001, while at the secondary level, rates are over 96.0 percent.

In all grade levels assessed in math, the percentage of students in the Advanced, Proficient, and Satisfactory levels of performance is greater in 2001 than in 2000. In reading, the same is true in Grade 5, while in Grades 8 and 11, one to two percent fewer students are represented in the three highest performance levels.

In terms of overall achievement related to the top three performance levels for the State assessments – Advanced, Proficient, and Satisfactory – generally over 60.0 percent of all students perform in the top three performance levels in all subject areas.

High School Completion Rates

The relative importance of a high school education has changed dramatically over the last half century in the United States. When the grandparents of today's high school students entered adulthood, a high school education was an asset in the labor force held by about half of the population ages 25 through 29 in 1950. By the early 1970s, when the parents of today's high school students entered the work force, about 83 to 84 percent of the population ages 18 through 24 who were not enrolled in high school had completed a high school education. At that time, a high school education still served as an entryway to a number of promising career paths. Now, a quarter century later, technological advances in the workplace have increased the demand for a skilled labor force to the point where a high school education serves more

as a minimum requirement for entry into the labor force. Completing a high school education is now even more essential in order to access additional education and training in the labor force.

The high school completion rate represents the proportion of 18-24 year-olds who have completed a high school diploma or an equivalent credential, including a General Educational Development (GED) diploma. According to data maintained by the United States Department of Education National Center for Education Statistics, a higher percentage of students in Kansas continue to earn their high school degree, or equivalent, as compared to their counterparts across the nation.

	1991-93	1994-96	1997-99
Kansas	91.4	91.6	91.6
Nationally	85.7	85.8	85.5

- **National Recognition of Educational Excellence**

National Blue Ribbon Schools

The following schools were named National Blue Ribbon Schools for the 2000-2001 school year:

Corinth Elementary School, Shawnee Mission, USD 512
Heatherstone Elementary School, Olathe, USD 233
Somerset Elementary School, Shawnee Mission, USD 512
South Park Elementary School, Shawnee Mission, USD 512

The Blue Ribbon Schools Program identifies and publicly recognizes outstanding public and private schools that are unusually effective in meeting local, State, and national goals and in educating all of their students. The program, established in 1982, is sponsored by the U.S. Department of Education and recognizes elementary and secondary schools in alternate years.

Milken Family Foundation National Educator Awards

In October 2000, three Kansas teachers had the honor of being named Milken Family Foundation Educators. Along with the prestige of being added to an elite network of more than 1,600 distinguished national educator recipients from around the nation, each teacher received a \$25,000 check and an all-expense-paid trip to Los Angeles to participate in the annual Milken Family Foundation National Education Conference. The Milken Family Foundation National Educator Awards Program was established in 1987 to recognize, celebrate and reward teachers, principals and other education professionals who make significant contributions to the education of children. The program is also designed to encourage young people to become teachers by publicly recognizing the contributions of the teaching profession. The program alternates annually between elementary school educators and secondary school educators.

Recipients included:

Nancy Harman, Principal at Kathryn O'Loughlin McCarthy Elementary School in Hays
Alice Bertels, Fourth Grade Teacher at State Street Elementary School in Topeka
Jeff McAdoo, Physical Education Teacher at Quail Run Elementary School in Lawrence

National Presidential Awards for Excellence

In February 2001, four Kansas teachers were selected to receive National Presidential Awards for Excellence in Mathematics and Science Teaching. The program was established in 1983 by the White House to identify outstanding mathematics and science teachers. The four national finalists were:

Susan Rathgeber, Wineteer Elementary, Derby, USD 260
Janeen Brown, Wakeeney Grade School, Wakeeney, USD 208
Kathleen Wilhite, Frontier Trail Junior High School, Olathe, USD 233
John Wachholz, Salina High School Central, Salina, USD 305

National Forensic League's National Championship

In July 2001, Jesse Nathan, a senior at Moundridge High School, defeated 2,500 competitors to be crowned the national champion in foreign extemporaneous speaking. In this category, competitors choose one of three topics dealing with an international issue. They have 30 minutes to prepare and memorize a seven-minute speech on that topic. For finishing first, Jesse won two scholarships totaling \$6,000.

Attorney General

Attorney General Carla Stovall was given the authority by the 1999 Kansas Legislature to appoint a statewide drug abuse resistance education (D.A.R.E.) Coordinator. The D.A.R.E. program within the Office of the Attorney General is responsible for assisting local law enforcement agencies and schools in the creation of local D.A.R.E. programs, providing training to local law enforcement officers who teach the D.A.R.E. curriculum, and providing information and materials regarding D.A.R.E. (2000 Supp. K.S.A. 75-721).

D.A.R.E. is a school-based prevention curriculum designed to be delivered by uniformed law enforcement officers. Its goal is to assist students in developing knowledge, skills, and attitudes that will help them avoid substance abuse and violence. The D.A.R.E. curriculum enhances the protective and social bonding factors in family, school, and the community. It helps students identify risk factors and works on building skills to avoid those risk factors. The most widely used curriculum is the core curriculum, which is designed for the exit level of elementary school (usually fifth or sixth grade), and has a 17-lesson format. The middle and high school curriculums are delivered in 10 lessons. All three of these curriculums use a workbook and are based on a cooperative learning strategy. There are three additional school-based curriculums, the K-4 visitations, special education, and D.A.R.E.+, which is an after-school program designed for middle school students. The parent Curriculum is designed for any adult interested in ensuring health, safety and the development of life skills for children.

D.A.R.E. lessons focus on the following objectives:

- Acquiring knowledge and skills to recognize and resist peer pressure to experiment with tobacco, alcohol, and other drugs
- Enhancing self-esteem
- Learning assertiveness techniques
- Learning about positive alternatives to substance abuse
- Learning anger management and conflict resolution skills
- Developing risk assessments and decision making skills
- Reducing violence
- Building interpersonal and communications skills
- Resisting gang involvement

Kansas has 261 D.A.R.E. officers teaching the program in 66 counties, representing 132 law enforcement agencies. Last year, 115,055 students in 742 schools from 194 school districts across the State received the D.A.R.E. program. Last year 85 officers were trained in two basic trainings, one middle school training, one parent training, and 36 officers began new D.A.R.E. programs. In fiscal year 2001, the D.A.R.E. program sent 2,500 pieces of mail regarding the program to police chiefs, sheriffs, and D.A.R.E. officers across the State. A database was developed and an e-mail listing of officers was established. In addition to new officers being trained, two officers have completed phase two of mentor training and one officer has completed phase one of mentor training. The national D.A.R.E. interactive website www.dare.com has information for students, parents, teachers, and for officers.

Department of Transportation

The Kansas Department of Transportation's (KDOT's) role is to coordinate the planning, development, funding, and operation of the various modes and systems of transportation in Kansas. Kansas ranks third in the nation for the number of public road bridges and has the fourth largest system of public roads. The 1999 Kansas Legislature enacted legislation implementing the Comprehensive Transportation Program (CTP) to continue to improve and maintain the transportation system in Kansas.

Components of the Transportation Infrastructure:

Highways and Other Roads

The State Highway System includes the Interstate system plus other "U.S." and "K" numbered routes. The agency is responsible for administering 10,383 miles of center lane miles and 4,919 bridges on the system. The CTP annually funds \$200.0 million for Substantial Maintenance, \$370.0 million for Major Modifications and Priority Bridges, and \$140.0 million for interchanges and grade separations, corridors, and bypasses as a part of the System Enhancement program.

KDOT also has certain responsibilities for city connecting links of the system and can expend State funds for maintenance and improvements on those routes. (City connecting links are the portions of State highways within city limits.) The CTP authorized just over \$3.0 million annually for city connecting link maintenance payments and over \$24.0 million annually for economic development and geometric improvements, and resurfacing programs.

The Special City and County Highway Fund aids local units of government and can be used for local road projects at the discretion of the local entities. The CTP provides \$160.0 million annually for this fund.

Some local roads are eligible for federal aid. While the agency does not have direct responsibility for the local roads, it works with local entities by providing federal aid for improvements on these roads. The CTP makes \$80.0 million available annually for local federal-aid projects. KDOT also provides the local entities with technical and financial assistance on other local roads projects.

Part of the CTP authorized the agency to establish a Transportation Revolving Fund to assist local entities with credit and credit enhancements. KDOT is authorized to assist local entities with local road projects by providing loans, credit enhancements, or by using the Kansas Development Finance Authority to pool local debt. Any obligation to transfer funds to the Transportation Revolving Fund is secondary to the lien of the bonds on the State Highway Fund.

Other Components

The aviation program, enhanced through the CTP, annually provides \$3.0 million for planning, constructing, reconstructing or rehabilitating the facilities of public-use general aviation airports. The program also provides support coordination activities with the federal government, the publications of Kansas airport directory, and the development of aviation charts.

The public transit program has been expanded from \$1.0 million to \$6.0 million annually through the CTP. Services were extended to aid elderly persons and persons with disabilities and to aid the general public in obtaining public transportation. The agency continues to administer funding for public transportation in rural areas.

KDOT has an active role assuring rail service in Kansas, serving as the lead agency for the Rail Working Group and undertaking extensive analysis of lines affected by potential abandonment. The CTP enhanced the rail program by providing assistance for the preservation and revitalization of short-line rail service in the State by transferring \$3.0 million annually to a rail revolving loan fund.

KDOT also administers federally funded programs including safety grants and the Transportation Enhancement program. The agency distributes federal funds to metropolitan entities for air quality and congestion mitigation.

Overview of Services Provided by the Kansas Department of Transportation

	FY 2000 Actual	FY 2001 Actual
Major Modification Program		
Miles constructed	123	150
Bridges constructed	83	103
Priority Bridge		
Bridges constructed	31	56
System Enhancement Program		
Interchange/separations constructed	0	0
Corridor miles	0	0
Bypass miles programmed	0	11
Substantial Maintenance		
Miles constructed	1,433	1,220
Bridges constructed	71	78
Rail		
Number of loans active at year-end	9	10
Public Transit		
Counties with public transit services available	95	92
Aviation		
Number of public-use airport improvements	25	28

Department of Social and Rehabilitation Services

Family Centered System of Care

The 1999 Legislature appropriated funds specifically for children's mental health. Approval was granted to continue this funding for FY 2001. Known as the Family Centered System of Care (FCSC), this funding is being utilized by the Community Mental Health Centers (CMHCs) to increase and enhance service delivery in three broad areas: community collaboration on behalf of service delivery, provide parent support services to families, and increase/expand the array of community based mental health services for children with severe emotional disturbance (SED).

Each CMHC developed a strategic plan in collaboration with key community stakeholders and parents to identify existing gaps in services and build programs to meet the needs of children with SED and their families. Plans are unique to each community as determined by the collaborative planning process at the local level. Every CMHC has added Parent Support Services to their service array, however, all other aspects of their proposals vary. Parent support services include, but are not limited to, advocating for parents and families, empowering parents to have a voice and make choices in their child's treatment, and providing information about services and resources available to them. Most CMHCs expanded their number of case managers, home-based family therapists, and medical personnel in order to increase the number of children and families they serve. Some CMHCs added attendant care, respite care services, summer programs for children, early childhood identification and intervention programs for children, and/or mobile crisis response services.

Therapeutic Preschools

The Kansas Legislature appropriated \$1.0 million for FY 2001 to fund Therapeutic Preschools for children with or at risk for SED. The funds will be used for the development of early childhood therapeutic preschool programs to broaden and/or expand the array of community based mental health services for young children who experience or are at risk for SED. Funding is intended to be utilized for new initiatives and services and may not supplant any current activities.

CMHCs who have an existing early childhood program may apply for grant funding but will need to indicate how the new funding builds or expands the existing program. Incorporating a mental health component into an existing non-CMHC community based early childhood program is also allowed. Programs are to be developed in collaboration with parents and other agencies and/or systems involved with young children such as regular and special education, Head Start, public health departments, Interagency Coordinating Councils (the agencies responsible for coordinating birth to 3 services), the local Child Welfare office, etc. Programs must also be community based, allow family involvement, provide parent support and outreach services, and track program outcomes. The proposals are due in October and a review committee will then determine the grants awarded.

Waiver for Persons with Physical Disability

The goal of the Home and Community Based Services Waiver for persons with Physical Disability (HCBS/PD) is to optimize independence and community integration in ways that meet basic health and safety needs in the most cost effective way possible. In FY 2001 this program served an average of 3,604 consumers per month. In an effort to manage the statewide capacity of community services to meet quality of life outcomes for this population, Community Supports and Services (CSS) has implemented the following:

- A database consisting of quality review records for each consumer has been created to monitor the services being provided to consumers.
- Annual training's are provided to all Area Medicaid Management staff and Independent Living Counselors on service development, utilization and policy updates.
- CSS is working with the HCBS Resource Network in an effort to include consumer input in the quality assurance process.
- CSS continues to manage an ongoing service assess list of consumers requesting services through the waiver program.

Department of Commerce and Housing

The Kansas Department of Commerce and Housing (KDOC&H) is made up of seven divisions that exist to provide leadership to ensure economic opportunities for all Kansans.

Administration Division

The Division undertook a number of new initiatives in the past year that have made its service even more effective. News releases are distributed via e-mail to newspapers and other sources around the State. Agency associates are receiving daily updates of articles concerning economic development that appear on the major State newspapers' web sites. The agency's web site has been completely revamped, following a business-to-business model, making it more customer-service oriented.

Agriculture Products Development Division

Division client sales grew a remarkable 113.0 percent to \$33.7 million in fiscal year 2001. The Division facilitated \$.2 million in export grants for four Kansas food companies through participation in the Mid-America International Agriculture Trade Council (MIATCO).

In fiscal year 2001, projects financed by the Agriculture Products Development Division processed 680,464 head of beef cattle, 322,967 bushels of soybean, 85,195 pounds of wheat and barley grass, 11,783 bushels of wheat, 94 hogs, and utilized 292,890 pounds of wheat resin manufactured by Kansas suppliers.

Division staff provided technical assistance to Kansas companies in international trade that resulted in sales of \$2.9 million worth of Kansas agriculture products. Products included pizzas, wheat flour, corn products, seasonings and mixes, milk products, pet food, wheat products, and honey.

In fiscal year 2001, the field staff participated in the World Ag Expo (California), New York Farm Show, and World Dairy Expo (Wisconsin), working with the Western Kansas Rural Economic Development Alliance (wKREDA).

The efforts of the KDOC&H and wKREDA have been instrumental in Kansas being ranked sixth in the nation in total yearly gain of milk production by state. Over the past five years, total dairy cow numbers have increased 11.0 percent, with a herd average of 2,234,118 pounds of milk. Total milk production in Kansas throughout the past five years has increased 18.2 percent.

Business Development Division

In fiscal year 2001, that effort was rewarded through the successful recruitment of 38 projects, only two fewer projects than the all-time high of 40, established in fiscal year 2000. Together these projects when completed and fully staffed will provide nearly 5,700 jobs, total about \$300.0 million in combined capital investment, and provide almost \$200 million in new annual payroll to the State.

Approximately 11,800 employees from 116 Kansas companies will be better able to meet the needs of modern industry through training funded by our training programs during fiscal year 2001. During this program year, 65.0 percent of the companies accessing training assistance were first-time participants in our programs, proving that our programs have appeal and are accessible to a broad range of Kansas companies.

Community Development Division

The State of Kansas receives an annual allocation of approximately \$20.0 million from the U.S. Department of Housing and Urban Development (HUD) and Small Cities Community Development Block Grant (CDBG) program. These block grants funds provide grant and administrative resources for the CDBG program that are targeted toward low-to moderate-income individuals.

Fiscal year 2001 funds provided \$216 thousand for the Incentives Without Walls program for designated Main Street cities, \$197 thousand for Rural and Metropolitan Community Capacity Building grants, and \$5 million of future State tax revenue through the Community Services Tax Credit Program. While resources from these State-funded programs are not targeted specifically to persons of low income, the applicants must document the need for these State resources and the benefit that will be derived from State investment in local projects.

In fiscal year 2001, 69 CDBG projects were completed or closed. Combined, these projects created or retained 430 jobs, rehabilitated 185 homes, demolished 39 unsafe structures, laid 33.6 miles of water mains, and ten miles of sewer lines in communities throughout Kansas. These closed projects provided benefits to 88,064 Kansans, of which 45,515 met low- to moderate-income (LMI) guidelines. Grant funds of \$17.7 million in these closed projects actually leveraged \$25.0 million in other public and private resources, generating better than a one-to-one return on investment.

Housing Development Division

The Housing Development Division's impact on the State of Kansas in fiscal year 2001 can be measured in two distinct ways. First, the economic impact can be measured monetarily, by calculating the value of the physical assets that are a result of State-assisted housing development. Using this measure, the Division leveraged almost \$168.0 million in housing investment during fiscal year 2001. Based on the Division's budget, this represents a leveraging factor of over 13-to-one. The second measure, improvements in the quality of life, is more difficult to assess. However, what can be said with certainty is that the Housing Development Division has a direct and positive impact on more than 55,000 Kansans. Both measures highlight the relationships between housing, economic development, and quality of life.

In fiscal year 2001, the Division granted \$2,851,573 to 241 first-time homebuyers (or 657 people), who turned in leveraged \$12,351,301 in private mortgage funds from the State Mortgage Lenders Consortium. The consortium includes 138 lenders spread over all 105 Kansas counties. In addition, the Division assisted 896 persons in achieving homeownership through mortgage revenue bonds (MRBs). Beneficiaries of MRB's were spread over 48 counties in Kansas. In fiscal year 2001, the Division provided \$3,946,159 to weatherize 938 owner-occupied homes and 775 rental units in 82 counties.

The Division awarded \$1.5 million from the State Housing Trust Fund (SHTF) to assist 27 applicants with 437 units of affordable housing across Kansas. The SHTF assisted 219 units of new construction, 123 units of rehabilitation, and rental assistance for 95 units.

Trade Development Division

In fiscal year 2001, an estimated 110,000 Kansans were employed as a direct result of either the export of goods and services or foreign direct investment in the State.

The Kansas Trade Show Assistance Program (KTSAP) encourages Kansas companies to look overseas for new business by offering financial support to exhibit in internationally focused trade shows. In fiscal year 2001, 70 grants were provided to 56 companies. Nearly 65.0 percent of the award recipients were new to the KTSAP program. As of June 30, 2001, award recipients have reported combined export sales of \$6.3 million dollars as a result of participating in shows funded by the program. This is a return on investment of \$103 for every \$1 awarded by the State. As a result of participating in those trade shows, the companies reported 500 international sales leads, 32 distributor agreements, and three international licensee agreements.

Travel and Tourism Development Division

The division received a total of 108,065 requests for information generated from its marketing and promotional efforts. According to the Advertising Effectiveness Study conducted for the Division by Kansas State University, more than one-third (36 percent) of those who asked for information about Kansas as a result of seeing the Division's 2000 print advertising campaign traveled to Kansas. Combined, these travelers spent over \$22.0 million, returning \$50 back to the State for every dollar spent on tourism promotion.

Visitors traveling to Kansas stayed an average of 3.3 nights in the State and spent approximately \$362 per trip (an increase of \$17 per trip). This fiscal year, 44.0 percent of those who traveled to the State described Kansas as their primary destination. Many visitors reported multiple trips to Kansas, with the average number of trips being 1.7 during fiscal year 2001.

This fiscal year's Attraction Development Grant program experienced another infusion of additional dollars, growing from \$952 thousand in fiscal year 2000 to \$1.1 million in fiscal year 2001. Thirty-four projects were funded in 25 counties across the State. Combined, they leveraged an additional \$9.5 million in non-State funds.

FINANCIAL INFORMATION

Kansas has a centrally-maintained computerized double-entry accounting system. Management of the State is responsible for establishing and maintaining an internal control structure to ensure that government assets are protected from loss, theft or misuse, and that adequate data are compiled to prepare meaningful financial statements. Internal accounting controls have been implemented for reasonable, but not absolute, assurance for safeguarding assets and accurately recording financial transactions. "Reasonable assurance" is based upon the premise that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of cost and benefits requires estimates and judgments by management. As a recipient of federal financial assistance, the State is also responsible for implementing internal controls for compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the internal audit staff of the government.

The State also maintains budgetary restrictions and controls which are imposed through annual appropriations and limitations approved by the legislature. Annual appropriated budgets are adopted for the State General Fund and certain Special Revenues, Capital Projects, Enterprise, Internal Service and Trust and Agency funds. The level of budgetary control in the central accounting system is usually established by agency, fund and budget unit. Budgetary control is maintained by mechanisms in the accounting system which prevent expenditures and firm encumbrances in excess of appropriations or limitations and/or available cash. Encumbrances are reported as expenditures for budgetary purposes and as reserved and designated fund balances in the financial statements included in this report.

COMBINED GOVERNMENTAL FUNDS OF THE STATE

The combined governmental funds of the State consist of the State General Fund, Special Revenue Funds and Capital Projects Funds. These funds encompass the broad activities of State government. The economic condition of the State is reflected in revenues and expenditures of the combined governmental funds.

The combined governmental funds revenues increased by \$439.9 million or 5.6 percent from fiscal year 2000 with the majority of the increase reflected in additional federal funding in various areas including children's health, childcare, foster care, child support, medical services and temporary assistance to needy families as well as increases in State General Fund taxes due to economic growth.

Expenditures of combined governmental funds increased by \$343.4 million or 4.2 percent over fiscal year 2000. The majority of the increases are in the Human Resources function and the Education function. The increase in the Human Resources function is for additional services provided by the Department of Social and Rehabilitation Services that resulted from the additional Federal funding revenues. The increase in the Education function is for aid to local school districts and reflects changes in the school finance formula and the base State aid per student. The base State aid increased \$50 per student, from \$3,770 to \$3,820, which totals \$28.7 million of the increase.

Please note, although the above discussion addresses operating revenues and expenditures for the combined governmental funds, each fund is a separate accounting entity. Resources from one fund cannot be transferred to another fund unless authorized by statute.

STATE GENERAL FUND

The State General Fund is maintained to finance all authorized governmental activities not supported by special funds. Revenues not specified by law for special funds are deposited into the State General Fund. Disbursements from the State General Fund are authorized by legislative appropriation acts. The unencumbered fund balance available to finance succeeding fiscal year appropriations at June 30, 2001, increased to \$342.8 million from \$337.5 million at June 30, 2000. Expenditures increased by \$70.0 million and revenues increased by \$156.1 million.

State General Fund revenues for fiscal year 2001 were \$4,360.1 million, an increase of \$156.1 million, or 3.7 percent. The major shift in State General Fund revenues was an increase in Individual Income and Sales Taxes due to economic growth. Revenues from the severance tax, which is the tax paid by the person owning any property from which oil, gas,

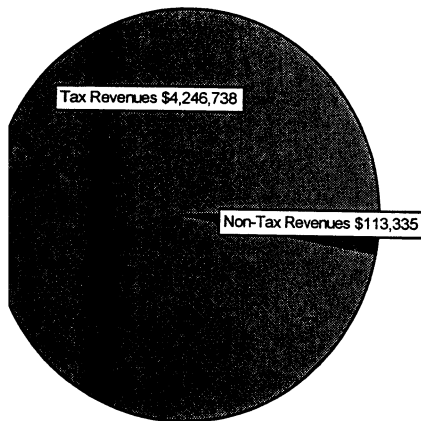
It is extracted, increased \$48.6 million. This revenue increase was due to economic growth and an increase in the first distributor for natural gas.

General Fund expenditures for fiscal year 2001 totaled \$4,225.8 million representing an increase of \$70.0 million or 1.7 percent. Analysis of expenditures reveals \$42.1 million of the increase is related to aid to local schools districts resulting from changes in the school finance formula and the base State aid per student.

Total State General Fund Revenues \$4,360,073
(In Thousands)

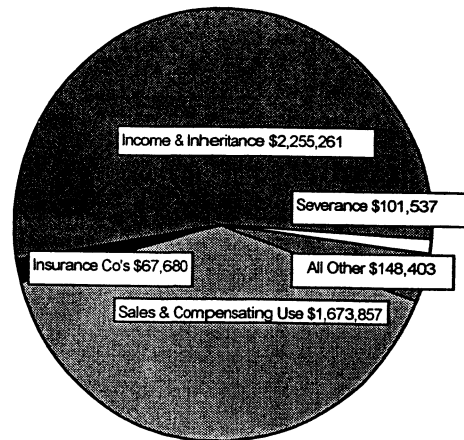
Total Revenue

\$4,360,073



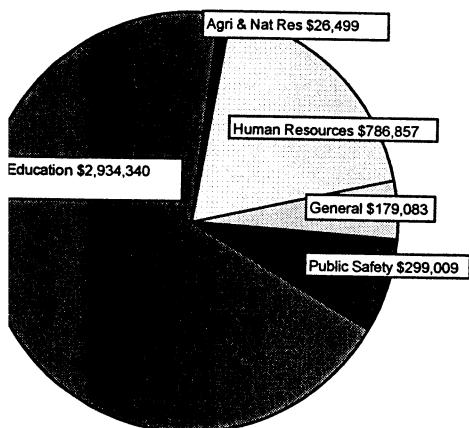
Tax Revenue

\$4,246,738

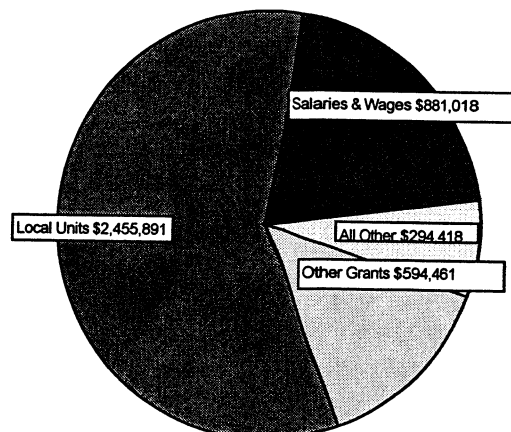


Total State General Fund Expenditures \$4,225,788
(In Thousands)

By Function



By Object



TRANSPORTATION FUNDS

Transportation funds consist of the State Highway Fund, Highway Bond Proceeds Fund, County Equalization and Adjustment Fund, Special City and County Highway Fund, Highway Bond Debt Service Fund, Rail Service Improvement Fund, Interagency Motor Vehicle Fuel Sales Fund, Public Use General Aviation Development Fund, and the Coordinated Public Transportation Assistance Fund. A comparative combined statement of revenues and expenditures of these funds is presented in the Statistical Section. The Kansas Department of Transportation issues a separate audited comprehensive financial report that is available from the agency on request.

Revenues deposited in the transportation funds are generally restricted for coordinating the planning, development and operation of various modes and systems of transportation within the State. Portions of the motor fuel taxes are distributed to counties and cities for the construction and maintenance of roads and bridges.

Fiscal year 2001 revenues to the transportation funds increased by \$17.1 million to a total of \$972.7 million. The increase in Revenue from the Use of Money and Property is partially due to a larger portfolio. In addition, as a result of market conditions at year end, the portfolio had generated unrealized gains. In compliance with GASB Statement 31, these unrealized gains are included as earnings in this revenue item. Revenues from Gifts, Donations and Federal Grants declined as a result of decreased Federal Aid receipts. These receipts are dependent upon the volume of construction expenditures and the mix of those expenditures on Federal versus State funded projects. The decline is a result of the mix of construction expenditures during the year.

Expenditures totaled \$1.1 billion, and increase of \$4 million. The expenditures for Highway and Bridges include expenditures made for construction as well as substantial maintenance activities that are performed by contractors. The decline in these expenditures was a result of a delay in getting the work started on those maintenance projects at the beginning of the construction season. Expenditures for Interest increased due to the issuance of additional bonds. The net increase of \$23.6 million in Other Financing Sources (Uses) is primarily a result of issuing more debt in fiscal year 2001 than in fiscal year 2000.

At June 30, 2001, indebtedness on highway revenue bonds and highway revenue refunding bonds was \$1,423.1 million. This debt is to be retired by fiscal year 2021.

EMPLOYMENT SECURITY

The Employment Security Fund was established by law as a special fund, separate and apart from all public moneys or funds of the State. The law mandates three separate accounts: (1) a clearing account, (2) an unemployment trust fund and (3) a benefit account. Deposits in this fund include contributions, interest earned on trust funds deposited in the U.S. Treasury, Federal grants for unemployment benefits to Federal employees and ex-military personnel, fifty percent of extended benefits, and other operating revenues. Funds are paid to regular recipients for a period up to twenty-six weeks. Extended benefits may be paid for an additional thirteen weeks during periods of high unemployment. Analysis of the Employment Security Fund transactions for fiscal year 2001 indicates that revenues increased by \$73.9 million. Expenditures increased \$39.0 million along with a rise in the number of unemployment claims in fiscal year 2001. The fund balance increased by \$11.3 million for fiscal year 2001.

The following table lists the minimum, maximum and the average employer's contribution rates for the current and prior four years.

Calendar Year	Minimum Tax Rate	Maximum Tax Rate	Average Tax Rate
1997	0.00%	6.00%	1.12%
1998	0.00	6.00	1.41
1999	0.00	6.00	1.57
2000	0.02	7.40	1.65
2001	0.03	7.40	1.79

LOCAL ASSISTANCE

Gross assistance expenditures to local units of government increased 3.3 percent from \$2,980.2 million in fiscal year 2000 to \$3,078.5 million in fiscal year 2001. Increases in education assistance from both federal and state sources account for the majority of the increase and can be attributed to a general increase in payments for aid to local school districts. Community college and municipal university, special education and elementary and secondary education also showed significant increases. A local assistance schedule in the Statistical Section details purpose and program by category of assistance for State of Kansas combined funds.

Federal assistance is provided to local units of government through the State Highway Fund under the Federal Highway Safety program. Moneys for secondary road projects are expended by KDOT for capital improvements and other related costs and are reflected in the combined financial statements as expenditures.

ENTERPRISE OPERATIONS

Certain State agency operations are similar to those of private industry as goods and services are exchanged for user fees which enhance the economic condition of the State. Enterprise operations include such diverse operations as Kansas State Fair receipts, Kansas Lottery ticket sales, Kansas Racing Commission receipts, sales of state flags, sales of vocational rehabilitation products, and University Enterprise Funds investments to provide dollars for debt funding. Other enterprise operations include the university housing and parking systems. The operations are self-supporting, charging fees for the costs of services. These costs may include debt service expenditures for obligations incurred to provide the service. The funds maintained by the universities for the housing and parking systems operations are classified as enterprise funds in the combined financial statements.

The Lottery Operating Fund and the State Racing Fund are classified as enterprise funds on the combined financial statements for fiscal year 2001. Excess receipts over expenditures from the operations of these agencies are used to finance other governmental functions. During fiscal year 2001, \$56.6 million was transferred to the State Gaming Revenues Fund from the Lottery Operating Fund, and \$.4 million from the State Racing Fund. Of the \$57.0 million transferred to the State Gaming Revenues Fund from lottery operations and racing receipts, \$5.0 million was transferred to the Correction Institutions Building Fund, \$42.4 million to the Economic Development Initiatives Fund, \$2.5 million to the Juvenile Detention Facilities Fund and \$.1 million to Other State Fees Problem Gambling Account. The remaining \$7.0 million was transferred to the State General Fund.

Net proceeds received from lottery retailers for the sale of Instant Multi-State and Kansas On-Line lottery tickets were \$107.7 million for fiscal year 2001. The Kansas Lottery reported gross proceeds at \$186.7 million in fiscal year 2001 compared to \$194.7 million in fiscal year 2000.

State Gaming was added to the Kansas Racing Commission in fiscal year 1997, now called The Kansas Racing and Gaming Commission. State gaming fulfills the duties and obligations of the State of Kansas set forth in the Tribal-State Gaming Compacts and the Tribal Gaming Oversight Act. Operating expenses of the State Gaming portion of the agency and expenses to enforce the Tribal Gaming Oversight Act are paid from the Tribal Gaming Fund. The State does not receive other moneys from tribal casino gaming activities.

PENSION TRUST FUND OPERATIONS

The Kansas Public Employees Retirement System is an umbrella organization administering three statewide retirement systems under one plan. These systems are Kansas Public Employees Retirement System, Kansas Police and Firemen's Retirement System and Kansas Retirement System for Judges. Further information on State participation in the retirement system can be found in Note III C of the Financial Section.

INTERNAL SERVICE FUNDS

Internal Service Funds are used by State agencies to recover the costs of providing services through user charges. Various State agencies have elected to allocate their costs of providing centralized services within their different funds. Agencies may also use certain funds to recover costs of providing services to other State agencies.

Internal Service Funds are used by the Department of Administration to charge other agencies for central services such as duplicating and printing services, motor pool, data processing, central aircraft expenses, depreciation, planning and repair services. The Highway Patrol provides capital area security services within State buildings. Most Kansas universities also use Internal Service Funds to charge their various departments for services such as maintenance, supplies, postage and telecommunications. Correctional Industries offer such services to other State agencies through furniture refinishing, janitorial products, signs and graphics production.

DEBT ADMINISTRATION

The State of Kansas finances a portion of its capital expenditures with various debt instruments. Of the capital expenditures that are debt-financed, revenue bonds and loans from the Pooled Money Investment Board finance most capital improvements for buildings, and certificates of participation and "third-party" financing pay for most capital equipment. The Kansas Constitution provides for the issuance of general obligation bonds subject to certain restrictions; however, no bonds have been issued under this provision. No other provision of the Constitution or State statute limits the amount of debt that can be issued. Statutory authority has been granted to issue revenue bonds for:

- academic and hospital facilities, parking facilities, student unions, athletic facilities and dormitories at State universities by the Board of Regents;
- highway construction by the Kansas Department of Transportation;
- a Bioscience Research Center and a Health Center for the University of Kansas;
- office buildings, renovation and restoration of state buildings, by the Department of Administration;
- reservoir projects or the purchase of storage in existing reservoirs by the Kansas Water Office;
- water pollution control grants to be loaned to participating Kansas municipalities to pay the costs of acquiring, constructing, improving, repairing, rehabilitating or extending municipal waste water projects by the Department of Health and Environment;
- public water supply project loans to participating Kansas municipalities to pay the costs of acquiring, construction, reconstructing, improving, rehabilitating or extending a public water supply system by the Department of Health and Environment;
- investments in lifelong learning programs by the Kansas Department of Commerce and Housing;
- relocation of the Reception and Diagnostic Center by the Department of Corrections;
- acquiring and renovating a central training center by the Highway Patrol;
- an office building project by the Insurance Department;
- Army National Guard renovation project; and
- State Fair Board capital improvement project.

Although the debt liability has increased in recent years, it is still considered low compared to other states or other public entities. The State of Kansas has no General Obligation debt rating; however, in October 1998 Standard and Poor's assigned an issuer credit rating "AA+" to the State of Kansas. This rating was recently affirmed by Standard and Poor's, which reflects the State's credit quality in the absence of general obligation debt. Recent revenue bonds issued by the Kansas Development Finance Authority (KDFA) for State agencies have received ratings ranging from "Aa3" to "AA" from Moody's, and Standard & Poor's, respectively. Recent fixed rate bonds issued by the Kansas Department of Transportation were rated "Aa2", "AA", and "AA+" by Moody's, Fitch, and Standard & Poor's, respectively.

Most State agencies debt is issued through the KDFA, an independent instrumentality of the State created in 1987 for the primary purpose of enhancing the ability of the State to finance capital improvements and improving access to long-term capital markets for State agencies, political subdivisions, public and private nonprofit organizations and businesses. Debt financing for capital improvements is used mostly for highway improvements, prison construction, acquisition and renovation of office space, energy conservation improvements, university facility construction and renovation, water pollution control and public water supply systems. Kansas Department of Transportation issues their own debt and has more actual dollars of outstanding debt than all other State agencies combined.

Of total State revenues, total bond payments constituted .3 percent in fiscal year 1994, .4 percent in 1995 through 1997, 1.7 percent in 1998, .9 percent in 1999, .8 percent in 2000, and 1.3 percent in 2001. During fiscal years 1994 and 1995, the largest use of bond proceeds was \$125.0 million and \$140.0 million, respectively, for the Comprehensive Highway

Program. During fiscal year 1996, bonds were issued for library expansion, renovation, water pollution control and investments in lifelong learning programs. During fiscal year 1997, the State issued new bonds for water pollution control and rehabilitation and repair projects at Board of Regents institutions. In fiscal year 1998, the State issued bonds totaling approximately \$447.4 million. The bonds were issued for water pollution control, public water supply and highway revenue refunding bonds. Total outstanding revenue bonds increased \$60.0 million in fiscal year 1999, due to issuance of additional bonds for public water supply, limited tax revenue bonds, housing and office renovation projects and educational building projects. During fiscal year 2000, Kansas Department of Transportation issued \$325.0 million of the approximately \$515.0 million in new bonds. During fiscal year 2001, approximately \$471.2 million in new bonds were issued. Of that amount, \$350.0 million were issued by the Kansas Department of Transportation for the purpose of paying a portion of the costs of construction, reconstruction, maintenance and improvements of highways as part of the State's Comprehensive Transportation Program. Principal and interest are payable and collectible solely from the revenues in the State highway fund and transferred to the highway bond debt service fund. In fiscal year 2001, principal payments and refunding of debt for all bonds were \$126.4 million.

CASH MANAGEMENT

On a daily basis, the State monitors receipts to, and expenditures out of, the State Treasury. It also employs cash flow tools and techniques that maximize revenues without incurring undue risk. The State invests idle funds to match anticipated cash flow needs by using government securities, collateralized bank deposits, and commercial paper to provide safety, liquidity, and yield, in that order. As a cash flow management policy, the State seeks to avoid borrowing from its own idle funds to meet expenditure obligations of the State General Fund.

The State maintains investments in addition to idle moneys. Authorized agencies may make investments independently of the State Treasury pooled cash. Generally the Pooled Money Investment Board (PMIB) acts as agent for these investments. Certain funds, such as Kansas Public Employees Retirement System and the Employment Security Fund, are statutorily exempted from PMIB oversight. Investments of the Municipal Investment Pool, an investment option established by the 1992 legislature for local governments, are also made by the PMIB.

RISK MANAGEMENT

The State has elected to manage most exposures to risk through the retention of risk. The exposures retained by the State are for buildings with a value less than \$.5 million (unless they are bonded and the bond covenant requires insurance) and capital equipment, health and life benefits, tort liability, unemployment benefits and worker's compensation benefits. The State has assumed many of these risks on a cash basis and has not encountered difficulty in resolving past losses by using resources available at the time that the loss occurred.

The State manages its risk by positively addressing various benefits and liabilities through review, legislation and administration to assure that claims are promptly and correctly adjudicated and that appropriate and fair benefits and liabilities are reflected in the statutes and regulations. Where cost effective and appropriate, such as limiting the impact of a catastrophic occurrence to the state buildings, the State has begun to limit its exposure through high deductible catastrophic loss insurance.

The indemnity medical plans (administered by Blue Cross/Blue Shield and Principal Mutual) and the dental plan (administered by Delta Dental) offered to State employees, elected officials, retirees and their dependents became self-insured effective January 1, 1996 and the State assumes all the risk for claims incurred under those plans. The prescription drug plan administered by Advance PSC became self-insured in October 1997 and the State assumes all the risk for claims incurred under this plan. Payments for those participating in these plans are collected through payroll deductions, deductions through the Kansas Public Employee's Retirement System and self-payment. The Health Care Commission considered a stop-loss arrangement to limit the State's exposure in the event of extraordinary unanticipated claims; however, the required premium would have exceeded potential extraordinary losses. The Health Care Commission monitors claims to determine if and at what point stop-loss insurance would be required.

ACKNOWLEDGMENTS

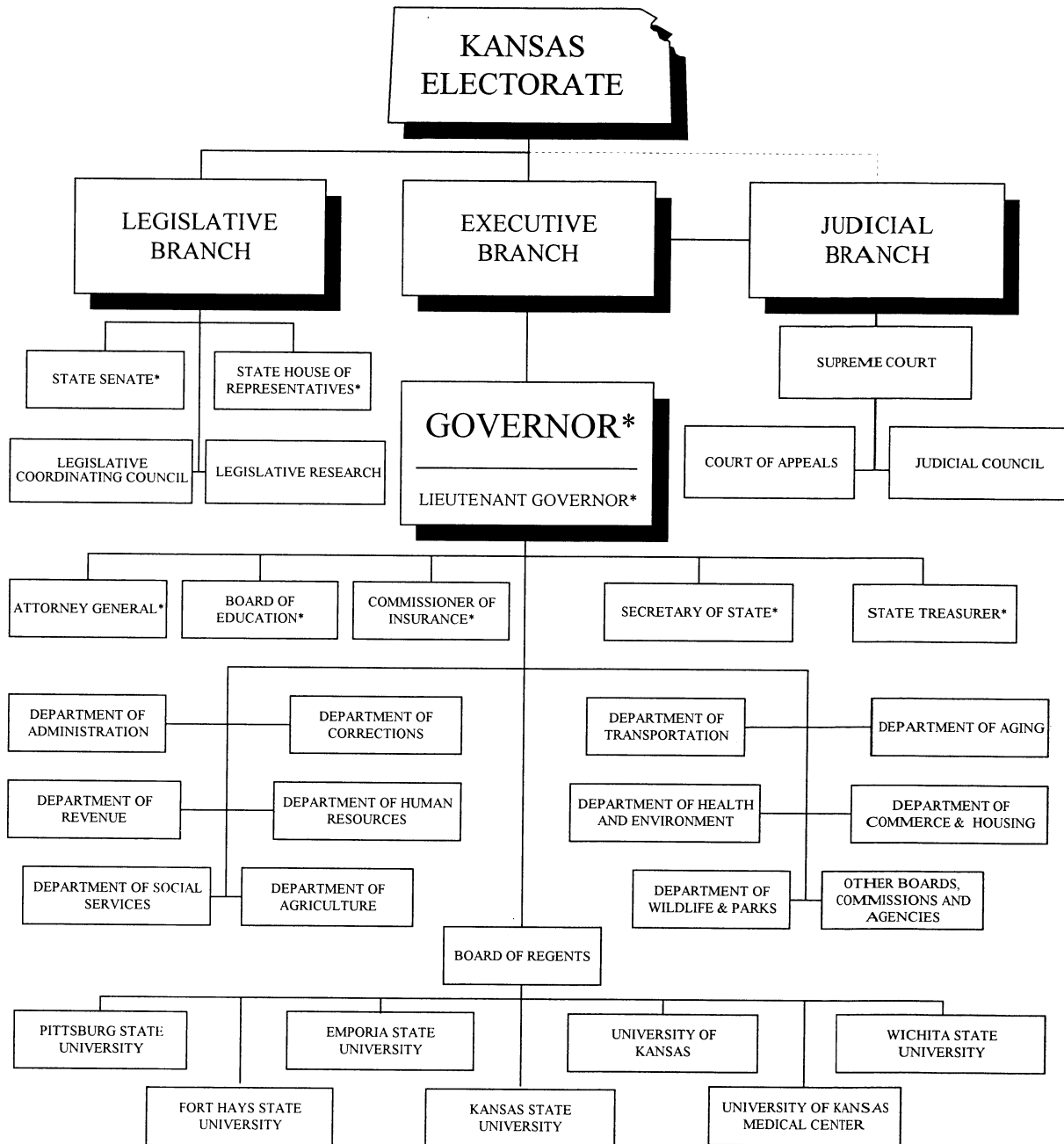
I wish to thank my staff whose dedicated efforts have made this report possible. Additionally, the professionalism and dedication demonstrated by the financial and management personnel of each State agency genuinely facilitated the preparation of this report. Finally, special thanks go out to the agencies who provided the information included in the Service Efforts and Accomplishments addressed earlier in this letter.

Sincerely,

A handwritten signature in black ink that reads "Dale Brunton". The signature is written in a cursive, flowing style.

Dale Brunton, Director
Division of Accounts and Reports

Organizational Chart



*ELECTED OFFICIALS

Listing of Selected Officials

Executive Branch

Governor
Bill Graves

Lieutenant Governor
Gary Sherrer

Secretary of State
Ron Thornburgh

State Treasurer
Tim Shallenburger

Attorney General
Carla Stovall

Board of Education
John A. Tompkins

Commissioner of Insurance
Kathleen Sebelius

Legislative Branch

*Speaker of the House of
Representatives*
Kent Glasscock

*Speaker Pro Tempore of the
House of Representatives*
Clay Aurand

President of the Senate
Dave Kerr

Vice President
Sandy Praeger

*Chief Clerk of the House of
Representatives*
Janet E. Jones

*Legislative Coordinating
Council*
Dave Kerr

Legislative Research
Ben F. Barrett

Judicial Branch

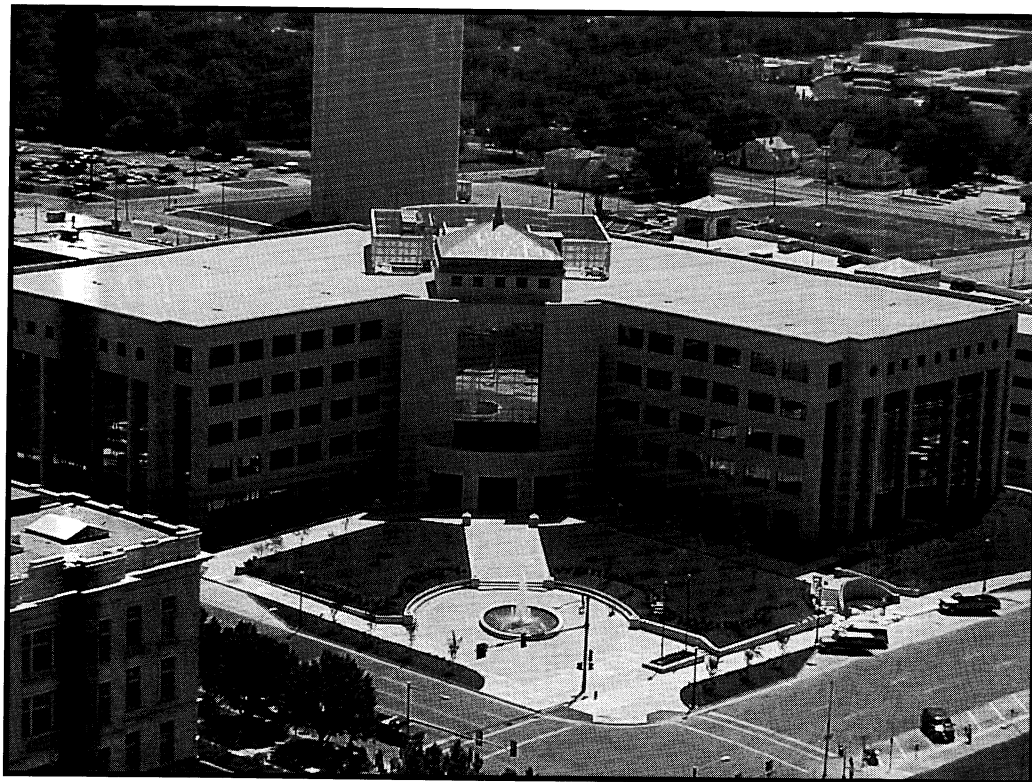
Supreme Court of Kansas
Chief Justice
Kay McFarland

Justices
Tyler C. Lockett
Donald L. Allegrucci
Fred N. Six
Bob Abbott
Robert E. Davis
Edward Larson

Court of Appeals
Gary Rulon

Judicial Council
Randy Hearrell

Judicial Administrator
Howard P. Schwartz



Signature State Office Building

**FINANCIAL
SECTION**



Memorial Hall



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Toll Free 1 800 530 5526
Facsimile 785 233 1768
E-mail cpa@cpakansas.com

INDEPENDENT AUDITORS' REPORT

Legislative Post Audit Committee
Kansas State Legislature
State of Kansas

We have audited the accompanying combined financial statements arising from cash transactions of the State of Kansas (State), as of and for the year ended June 30, 2001, as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, these financial statements were prepared on a modified cash basis of receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The combined financial statements referred to above do not include a general fixed assets account group, capital assets of the proprietary fund types, or a budgetary comparison statement, which in our opinion should be included to demonstrate compliance with applicable statutes and regulations.

The State has not implemented Accounting Standards Board Statement No. 14, "The Financial Reporting Entity." As a result, certain component units have been excluded from the combined financial statements.



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In our opinion, except for the omission of the information discussed in the previous paragraph, the combined financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances arising from cash transactions of the State general fund, special revenue funds, capital project funds, enterprise funds, internal service funds, and trust and agency funds of the State at June 30, 2001, and the revenues collected and expenditures paid for such funds during the year then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2001, on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Audit Standards and should be read in conjunction with this report in considering the results of our audit.

The other data included in this report, designated as the introductory and statistical sections in the table of contents, has not been audited by us, and accordingly, we express no opinion on that data.

Allen, Gibbs & Houlik, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

November 9, 2001
Wichita, Kansas

Berberich Trahan & Co., P.A.
CERTIFIED PUBLIC ACCOUNTANTS

November 9, 2001
Topeka, Kansas



Kansas Judicial Center

State of Kansas
Financial Statements
June 30, 2001

Combined Statement of Assets, Liabilities and Fund Balances

On a Modified Cash Basis for All Fund Types and Account Group
(With Comparative Totals for June 30, 2000)
(Expressed in Thousands)

	Governmental Fund Types		
	State General Fund	Special Revenue Funds	Capital Projects Funds
1 ASSETS			
2 Pooled Balance with State Treasurer	\$ 424,089	\$ 608,536	\$ 63,910
3 Cash in Agencies' Imprest Funds and Authorized Bank Accounts	605	689	0
4 Cash with U.S. Treasurer	0	0	0
5 Municipal Investment Pool Balance	0	0	0
6 Canteen, Benefit and Members Moneys in Agencies' Custody	0	0	0
7 Public Employees Retirement Fund Investments (Fair Value) and Cash	0	0	0
8 Specific Agency Fund Investments (Fair Value) and Cash	0	899,016	99,860
9 Accrued Interest Purchased on Investments	0	1,321	0
10 Amount to be Provided for Revenue Bond Redemption	0	0	0
11 Amount to be Provided for Loan Redemption	0	0	0
12 Amount to be Provided for Miscellaneous Obligations	0	0	0
13 Amount to be Provided for Water Supply Storage Assurances	0	0	0
14 Amount to be Provided for Certificates of Participation and			
15 Blanket Financing	0	0	0
16 TOTAL ASSETS	\$ 424,694	\$ 1,509,562	\$ 163,770
17			
18 LIABILITIES AND FUND BALANCES			
19 LIABILITIES			
20 Unredeemed Warrants and Vouchers Payable	\$ 21,560	\$ 125,404	\$ 3,930
21 Due Bond Holders for Bonds Defeased with State Treasurer	0	0	0
22 Due State and Kansas Municipalities	0	0	0
23 Notes Payable	0	0	680
24 Revenue Bonds Payable	0	0	0
25 Loans Payable	0	0	0
26 Miscellaneous Obligations Payable	0	0	0
27 Water Supply Storage Assurances	0	0	0
28 Certificates of Participation and Blanket Financing Payables	0	0	0
29 Canteen, Benefit and Members Trust Funds	0	0	0
30 Total Liabilities	21,560	125,404	4,610
31 FUND BALANCES			
32 Reserved and Designated Balances:			
33 Total Unliquidated Encumbrances	36,964	895,064	54,726
34 Unencumbered Balance of Appropriations Reappropriated	22,783	4,104	19,051
35 Designated Balances	605	483,818	75,067
36 Balances of Public Employees Retirement Fund	0	0	0
37 Total Reserved and Designated Fund Balances	60,352	1,382,986	148,844
38 Unencumbered Balance Available to Finance			
39 Appropriations	342,782	1,172	10,316
40 Total Fund Balances	403,134	1,384,158	159,160
41 TOTAL LIABILITIES AND FUND BALANCES	\$ 424,694	\$ 1,509,562	\$ 163,770

The Notes to the Financial Statements are an integral part of the combined financial statements.

Proprietary Fund Types		Fiduciary Fund Type				
Enterprise Funds	Internal Service Funds	Trust and Agency Funds	Long-Term Obligations Account Group	Totals (Memorandum Only)		
				2001	2000	
\$ 63,362	\$ 60,041	\$ 409,506	\$ 0	\$ 1,629,444	\$ 1,647,792	1
13	0	146	0	1,453	1,436	2
0	0	512,397	0	512,397	500,857	3
0	0	532,917	0	532,917	391,213	4
0	0	6,075	0	6,075	6,228	5
0	0	9,632,537	0	9,632,537	10,690,962	6
12,922	0	812,398	0	1,824,196	1,453,356	7
0	0	1,279	0	2,600	292	8
55,945	0	0	2,194,550	2,250,495	1,905,755	9
0	5,792	0	4,728	10,520	11,907	10
0	16,261	0	22,572	38,833	40,321	11
0	0	0	16,775	16,775	17,139	12
0	0	0	16,336	16,336	15,791	13
<u>\$ 132,242</u>	<u>\$ 82,094</u>	<u>\$11,907,255</u>	<u>\$ 2,254,961</u>	<u>\$ 16,474,578</u>	<u>\$ 16,683,049</u>	14
						15
						16
						17
\$ 2,885	\$ 5,535	\$ 100,017	\$ 0	\$ 259,331	\$ 215,226	18
0	0	305,807	0	305,807	279,684	19
0	0	532,917	0	532,917	391,213	20
0	0	0	0	680	0	21
55,945	0	0	2,194,550	2,250,495	1,905,755	22
0	5,792	0	4,728	10,520	11,907	23
0	16,261	0	22,572	38,833	40,321	24
0	0	0	16,775	16,775	17,139	25
0	0	0	16,336	16,336	15,791	26
0	0	6,075	0	6,075	6,228	27
<u>58,830</u>	<u>27,588</u>	<u>944,816</u>	<u>2,254,961</u>	<u>3,437,769</u>	<u>2,883,264</u>	28
						29
						30
9,133	16,380	29,219	0	1,041,486	930,176	31
0	0	0	0	45,938	55,367	32
64,279	38,126	1,298,309	0	1,960,204	1,711,294	33
0	0	9,632,561	0	9,632,561	10,684,524	34
<u>73,412</u>	<u>54,506</u>	<u>10,960,089</u>	<u>0</u>	<u>12,680,189</u>	<u>13,381,361</u>	35
						36
0	0	2,350	0	356,620	418,424	37
<u>73,412</u>	<u>54,506</u>	<u>10,962,439</u>	<u>0</u>	<u>13,036,809</u>	<u>13,799,785</u>	38
<u>\$ 132,242</u>	<u>\$ 82,094</u>	<u>\$11,907,255</u>	<u>\$ 2,254,961</u>	<u>\$ 16,474,578</u>	<u>\$ 16,683,049</u>	39

State of Kansas
Financial Statements
June 30, 2001

Combined Statement of Revenues, Expenditures/Expenses and Changes in Fund Balances

On a Modified Cash Basis for All Fund Types
For the Fiscal Year Ended June 30, 2001
(With Comparative Totals for the Fiscal Year Ended June 30, 2000)
(Expressed in Thousands)

		Governmental Fund Types		
		State General Fund	Special Revenue Funds	Capital Projects Funds
1	REVENUES:			
2	Taxes	\$ 4,246,738	\$ 601,526	\$ 34,214
3	Agency Earnings	14,006	479,270	4,553
4	Revenue From the Use of Money and Property	71,819	85,925	2,636
5	Gifts, Donations and Federal Grants	0	2,479,336	936
6	Reimbursements and Refunds	2,188	222,499	397
7	Other Operating Revenue	25,322	36,759	1,384
8	TOTAL REVENUES	4,360,073	3,905,315	44,120
9				
10	EXPENDITURES/EXPENSES:			
11	General Government	179,083	212,755	2,629
12	Human Resources	786,857	1,682,252	5,298
13	Education	2,934,340	1,013,008	69,710
14	Public Safety	299,009	89,042	14,224
15	Agriculture and Natural Resources	26,499	89,573	0
16	Highways and Other Transportation	0	998,581	0
17	Debt Services:			
18	Principal	0	43,445	35,879
19	Interest	0	66,958	16,421
20	TOTAL EXPENDITURES/EXPENSES	4,225,788	4,195,614	144,161
21				
22	OTHER FINANCING SOURCES (USES):			
23	Borrowings	0	356,229	121,610
24	Conversion of Assets	0	788	0
25	Receipts from Agencies for Certificate of Participation			
26	and Blanket Financing	0	0	6,850
27	Payments to Refunded Bond Escrow Agent	0	0	(32,502)
28	Transfer (Net)	(139,772)	200,531	51,636
29	Other Financing Sources (Uses)	(1,242)	(9,277)	(8,634)
30	TOTAL OTHER FINANCING SOURCES (USES)	(141,014)	548,271	138,960
31				
32	EXCESS (DEFICIENCY) OF REVENUES AND			
33	OTHER FINANCING SOURCES OVER (UNDER)			
34	EXPENDITURES/EXPENSES AND OTHER	(6,729)	257,972	38,919
35	FINANCING USES			
36	Fund Balances, July 1	409,863	1,126,186	120,241
37	Fund Balances, June 30	\$ 403,134	\$ 1,384,158	\$ 159,160

The Notes to the Financial Statements are an integral part of the combined financial statements.

Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)		
Enterprise Funds	Internal Service Funds	Trust and Agency Funds	2001	2000	
\$ 3,029	\$ 712	\$ 762,394	\$ 5,648,613	\$ 5,412,908	1
144,538	116,058	2,149	760,574	746,826	2
44,475	14,305	(595,935)	(376,775)	1,651,354	3
342	200	152,973	2,633,787	2,388,865	4
2,995	3,343	229,468	460,890	295,001	5
3,323	14,326	288,070	369,184	406,410	6
198,702	148,944	839,119	9,496,273	10,901,364	7
					8
					9
					10
23,811	84,433	1,489,601	1,992,312	1,906,046	11
113	18	377,324	2,851,862	2,514,885	12
79,112	50,972	32,572	4,179,714	4,071,498	13
0	13,169	4,139	419,583	407,736	14
3,730	153	13,453	133,408	147,352	15
0	0	0	998,581	1,009,995	16
					17
8,411	1,033	13,478	102,246	97,621	18
2,845	451	21,293	107,968	88,765	19
118,022	150,229	1,951,860	10,785,674	10,243,898	20
					21
					22
9,874	0	3,982	491,695	526,354	23
1	338	0	1,127	1,591	24
					25
0	0	322	7,172	17,221	26
(864)	0	0	(33,366)	(5,520)	27
(78,954)	(1,997)	(31,444)	0	0	28
593	(380)	78,737	59,797	(13,505)	29
(69,350)	(2,039)	51,597	526,425	526,141	30
					31
					32
					33
11,330	(3,324)	(1,061,144)	(762,976)	1,183,607	34
					35
62,082	57,830	12,023,583	13,799,785	12,616,178	36
\$ 73,412	\$ 54,506	\$ 10,962,439	\$ 13,036,809	\$ 13,799,785	37

I. Summary of Significant Accounting Policies

The Governmental Accounting Standards Board (GASB) is the primary standard setting body for establishing governmental accounting and financial reporting principles. The current combined financial statements are prepared on a modified cash basis of accounting, include certain amounts to be provided for in certain governmental and proprietary fund types, do not include the General Fixed Asset Account Group, do not include certain assets in the proprietary funds, omit the recording of certain obligations, and exclude certain component units, all of which are departures from Accounting Principles Generally Accepted in the United States of America (GAAP). These inclusions, omissions and departures are discussed in the applicable sections of these Notes.

The combined financial statements have been prepared primarily from the accounts maintained by the Division of Accounts and Reports. Additional data has been derived from information of various departments and entities based on subsidiary accounting systems.

A. Reporting Entity

The State government is comprised of three branches: the Executive Branch, with the Governor as chief executive; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 125 members; and the Judicial Branch, which includes the Supreme Court, the Appeals Court and the District Trial Courts.

For financial reporting purposes, the State of Kansas has included all funds and accounts of all State organizational units as part of the primary government except:

- The Kansas Development Finance Authority
- The Kansas Technology Enterprise Corporation

The State has not implemented GASB Statement No. 14, entitled "The Financial Reporting Entity." As a result, certain component units have been excluded from the combined financial statements. Once they are included, they will be presented discretely.

B. Fund Structure

The State reports its financial position and results of operations in funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Transactions between funds within a fund type, if any, have not been eliminated.

The general long-term obligations account group is an accounting entity used to provide accountability for the State's general long-term obligations. It is not considered a fund because it does not report expendable available financial resources and related liabilities.

I. Summary of Significant Accounting Policies

The State has established the following fund categories (further divided by fund types) and account groups:

Governmental Funds - account for the general governmental activities of the State.

The General Fund is the primary operating fund of the State. It is used to account for all governmental transactions, except for those required in another fund.

Special Revenue Funds are used to account for specific revenue sources, other than expendable trusts, that have been segregated according to State finance law to support specific governmental activities.

Capital Projects Funds are used to account for financial resources used to acquire or construct major capital assets and to finance local capital projects.

Proprietary Funds - account for the State's ongoing activities that are similar to those often found in the private sector.

Enterprise Funds account for operations where the cost of providing goods or services to the general public is financed primarily through user charges.

Internal Service Funds account for the financing of services provided by one department or agency to other departments or agencies of the State, or to other governmental units.

Fiduciary Funds - are used to account for assets held by the State in a trustee capacity, or as an agent for individuals, private organizations, other governmental units and/or other funds.

Expendable Trust Funds are used to account for trusts whose principal and income may be expended for a designated purpose.

Nonexpendable Trust Funds are used to account for trusts whose principal cannot be spent.

Pension Trust Funds are used to account for the assets, liabilities and fund equities held in trust for the Kansas Public Employees Retirement System.

Agency Funds are used to account for assets the State holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

General Long-Term Obligations Account Group - is used to account for long-term bonds and notes issued by the State, capital leases, certificates of participation and other long-term obligations, excluding the liabilities of the proprietary funds.

C. Basis of Accounting

All funds included in these financial statements are prepared on a cash basis of accounting with modifications. Revenue is generally recognized and recorded when moneys are received. Expenditures (including capital outlays) are recognized and recorded when State warrants are requested to be issued. Ordinarily, fiscal year records remain open through the

I. Summary of Significant Accounting Policies

second Monday in July to process and record vouchers, other pay documents and receipts related to the fiscal year ended June 30. However, if that date results in less than eight business days, the closing date will be set to allow eight working days to process the old year transactions. Encumbrances outstanding at year end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

D. Departures from Generally Accepted Accounting Principles

These combined financial statements are not prepared in conformity with GAAP. Significant departures include the following:

- Revenue is recognized when received rather than when susceptible to accrual.
- Expenditures are recognized when payment requests are processed rather than when obligations are incurred.
- Proprietary funds use the modified cash basis of accounting rather than the accrual basis.
- The combined financial statements omit the fixed assets of the proprietary funds and the general government.
- Certain component units have been excluded. Once they are included, they will be presented discretely.
- Required budgetary comparisons have been excluded.
- The general long-term obligations account group does not include obligations for compensated absences, unemployment claims, workers' compensation claims of non-state workers, health care stabilization claims and certain incurred but not reported claims.
- Medicaid claims incurred but not reported and the related receivable from the Federal government, are not included.
- Fund liabilities in the governmental and proprietary fund types are offset by an equal amount to be provided as an other debit in the combined balance sheet. Borrowings in the proprietary fund types are also shown as an other financial source in the year of issuance.
- In June 1999, the Governmental Accounting Standards Board issued GASB No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" ("GASB No. 34"). This Statement is required to be adopted for the fiscal year beginning after June 15, 2001. GASB No. 34 establishes accounting and financial reporting standards for general purpose external financial reporting by state and local governments. GASB No. 34 establishes specific standards for the basic financial statements, management's discussion and analysis, and certain required supplementary information. Adoption of GASB No. 34 will also require the State to adopt other applicable GASB statements not currently adopted. The State has formed a committee to assess the impact adoption of GASB No. 34 will have on the general purpose financial statements, but the committee has not completed its analysis. Management is therefore currently unable to determine the impact that adopting GASB No. 34 will have on its combined statement of financial position and combined statement of revenues, expenditures and changes in fund balances when such statement is adopted.

E. Assets, Liabilities and Fund Equity

Cash and Investments

State Pooled Moneys - Cash balances of funds in the State Treasury are held in a general checking account and other special purpose bank accounts. The available cash balances beyond immediate need are pooled for short-term investment purposes by the Pooled Money Investment Board (PMIB) and are reported at fair value.

I. Summary of Significant Accounting Policies

The PMIB's investment policies are governed by State statute. The primary objective is to attain safety, liquidity and yield. PMIB's allowable investments for State Pooled Moneys not invested in Kansas financial institutions are as follows:

- Direct obligations of, or obligations that are insured as to principal and interest by, the U.S. Government or any direct agency thereof, with maturities up to four years
- Repurchase agreements with Kansas banks or with primary government securities dealers
- Limited interest-bearing loans to various State agencies as specifically provided by law
- Certain Kansas agency and IMPACT Act projects and bonds
- High grade commercial paper

Specific Fund Investments - Cash balances not held in the State Treasury may be invested as permitted by statute. The estimated fair value of these investments is based on quoted market prices from Bloomberg Financial Market. Allowable investments of other funds include:

- U.S. Government obligations
- U.S. Government agency securities
- Mortgage-backed securities
- Corporate/Asset-backed securities
- Municipal securities
- Kansas banks
- Guaranteed investment contracts
- Mutual funds
- Money market instruments
- Kansas Municipal Investment Pool
- Commercial paper

Kansas Municipal Investment Pool - The Kansas Municipal Investment Pool (MIP) was created on July 1, 1992, as a voluntary, State-managed investment alternative for State and local funds. The Office of the Kansas State Treasurer (Treasurer) acts as the custodian for all moneys deposited. All Kansas governmental units, including cities, counties, school boards and other governmental entities holding public moneys are eligible to participate in the MIP.

The assets of the MIP are combined with State moneys to form the Pooled Money Investment Portfolio.

Kansas Public Employees Retirement System (KPERs) Investments - The Retirement System's investment categories, as permitted by statute, include equities, fixed income securities, cash equivalents, real estate, derivative products and alternative investments. KPERs values its investments at fair value as required by GASB Statement No. 25. In fulfilling its responsibilities, the Board of Trustees contracts with investment management firms and a master global custodian.

Valuation - Investments are generally stated at fair value. The estimated fair value of these investments is based on quoted market prices from Bloomberg Financial Market.

I. Summary of Significant Accounting Policies

Liabilities

Unredeemed Warrants and Vouchers Payable - The State records liabilities for operating expenditures and capital outlay when warrants are requested to be issued, as evidenced by the preparation of vouchers payable. The accompanying financial statements do not include the liability and related expenditure for accrued salaries and benefits at fiscal year-end.

Long-Term Obligations - The liabilities reported in the General Long-Term Obligations Account Group include long-term bonds and notes issued by the State, most obligations under lease/purchase arrangements, and other long-term obligations.

Compensated Absences and Salaries Payable - The State records vacation leave as an expenditure when paid. Classified State employees accrue vacation leave based on the number of years employed up to a maximum rate of 6.5 hours per pay period, and may accumulate a maximum of 240 hours. Upon retirement or termination, employees are paid for accrued vacation leave up to their maximum accumulation. The estimated unrecorded liability for vacation leave payable at June 30, 2001, was \$91.0 million.

State employees earn sick leave at the rate of 3.7 hours per pay period. Employees who terminate are not paid for unused sick leave. Employees who retire are paid a portion of their unused sick leave based on years of service and hours accumulated. Unrecorded sick leave payable at fiscal year end is estimated to be \$33.0 million.

The State had a liability to employees for salaries payable for work performed through June 30, 2001. This unrecorded liability is estimated to be \$103.9 million.

The accompanying financial statements do not include a provision for compensated absences or accrued salaries.

Fund Equity

Reservations of fund equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of equity represent tentative management plans that are subject to change.

F. Total (Memorandum Only)

Total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present consolidated financial position, results of operations or cash flows in accordance with GAAP. Interfund eliminations have not been made in the aggregation of this data.

G. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could vary from the estimates that were assumed in preparing the financial statements.

II. Detailed Notes on Financial Statements

A. Deposits and Investments

State Treasury's and Municipal Investment Pool Balance

Cash balances in the State Treasury are held in numerous bank accounts. Available cash balances beyond immediate needs are pooled for short-term investment purposes. The cash balances and investments are combined and reported under the caption of State Treasury's Balance and Municipal Investment Pool Balance on the Combined Statement of Assets, Liabilities and Fund Balances. The State Treasury and Municipal Investment Pool Balance as of fiscal year-end is comprised of:

<i>(Expressed in Thousands)</i>	
<i>Cash</i>	
Kansas Banks Demand Accounts	\$ 39,922
Monies in Custodial Demand Accounts	1,051
Cash Items	102
Cash in Transit (FY 2001 deposits with State Treasurer during closing period)	55,375
 <i>Investment Pool Securities at Fair Value</i>	
Kansas Banks Certificates of Deposit	153,507
U.S. Government agencies securities	497,494
Commercial Paper	771,568
Repurchase Agreements	491,300
Public Water Supply Loan Fund	5,000
Unclaimed Property Invested by KPERS	86,652
Linked Deposits	49,871
<i>Loans Receivable</i>	<u>10,519</u>
 <i>Total State Treasury's and Municipal Investment Pool Balance</i>	 <u><u>\$ 2,162,361</u></u>

At June 30, 2001, the State Treasurer had \$246.7 million in demand deposit and time deposits, of which all but \$300 thousand was covered by FDIC insurance or pledged collateral (either government securities, FHLB letters of credit or surety bonds). The pledged securities and bonds are held in safekeeping for the State Treasurer at the Federal Reserve Bank of Kansas City or in approved custodial banks and are held in the State's name.

II. Detailed Notes on Financial Statements

Investments

Investments included in the State Treasury's Balance and Municipal Investment Pool Balance, Specific Agency Fund Investments, and investments of the Kansas Public Employees Retirement System are classified into the following three risk categories:

1. Insured or registered, or securities held by the State or its agent in the State's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

Investments included in the State Treasury's and Municipal Investment Pool Balance are classified as risk category 1. Market value approximates \$2,065.9 million.

At fiscal year-end, other investment balances categorized by level of risk were as follows:

Specific Agency Fund Investments

	1	Category 2	3	Fair Value
U.S. Government Obligations	\$ 425,704			\$ 425,704
U.S. Government Agency Securities	805,457			805,457
Mortgage Backed Securities	29,814			29,814
Municipal Securities	2,340			2,340
Corporate Security	198,255			198,255
Kansas Banks	919			919
Repurchase Agreements	167,156			167,156
Commercial Paper	7,963			7,963
	<u>\$ 1,637,608</u>			
State of Kansas Municipal Investment Pool				144
Guaranteed Investment Contracts				186,155
Mutual Funds				174
Money Market Investments				115
<i>Total Specific Agency Fund Investments and Cash</i>				<u>\$ 1,824,196</u>

II. Detailed Notes on Financial Statements

Kansas Public Employees Retirement System Investments

	<i>(Expressed in Thousands)</i>			Fair
	1	Category 2	3	Value
<i>Subject to Classification</i>				
Domestic Large Cap Equities	\$2,349,564			\$2,349,564
Domestic Small Cap Equities	1,483,485			1,483,485
International Equities	1,070,562			1,070,562
Fixed Income	2,345,342		160,089	2,505,431
Cash Equivalents				
Corporate Note	190,029 ¹		864,969 ²	1,054,998
Federal Agency	100,666 ¹			100,666
Foreign Currency	14,146 ¹			14,146
<i>Total Subject to Classification</i>	<u><u>\$7,553,794</u></u>		<u><u>\$1,025,058</u></u>	\$8,578,852
<i>Not Subject to Classification</i>				
Alternative Investments				482,326
Real Estate				663,305
Mutual Funds				
Cash Equivalents				167,708
Securities on Loan ³				<u>1,156,500</u>
<i>Total Not Subject to Classification</i>				2,469,839
 <i>Total Investments at Fair Value</i>				 11,048,691
 Income Receivable on Investments				53,250
Receivable on the Sale of Investments				1,622,291
Payable on the Purchase of Investments				(1,902,325)
Securities Lending Cash Collateral				<u>(1,189,370)</u>
 <i>Total Net Asset Value</i>				 <u><u>\$9,632,537</u></u>

¹ Foreign currencies and fixed securities maturing within 90 days of purchase date.

² Securities lending cash collateral invested with maturities within 90 days of fiscal year end.

³ Market value of securities loaned, with cash collateral.

B. Short-Term Notes Payable

On October 5, 2000, the Kansas Development Finance Authority (KDFA) issued KDFA Revenue Notes, Series 2000Q, Kansas Board of Regents University of Kansas Student Recreation and Fitness Center Project, for \$680 thousand aggregate principal. The Revenue notes were privately placed with Koch Financial Services Corporation. The 2000Q notes are short-term, 18 month obligations, callable in 12 months.

C. Long-Term Obligations

General Long-Term Obligations

The State of Kansas does not have the statutory authority to issue general obligation bonds. The legislature has authorized the issuance of specific purpose revenue bonds and other forms of long-term obligations.

II. Detailed Notes on Financial Statements

KDFA was created for the primary purpose of enhancing the ability of the State to finance capital improvements. When the obligations issued by KDFA are paid in full, the ownership of the property is transferred to the State. Further, certificates of participation have been issued by KDFA pursuant to lease purchase agreements with the State as lessee. Currently, there are no outstanding certificates of participation.

Blanket Financing agreements for equipment leases with option to purchase agreements have been entered into with Koch Financial Corporation and Ford Motor Credit Company. In 1994, an agreement with Koch Financial Corporation established an aggregate maximum line of credit of \$25.0 million, of which \$5.9 million was unused and is no longer available. Final payment for this contract was made April 15, 2001. A 1996 agreement with Ford Motor Credit Company established an aggregate maximum credit line of \$35.0 million. This agreement expired April 30, 1999. However an amendment dated April 19, 1999 extended \$3.0 million of the line of credit to September 30, 1999 to be used exclusively by the University of Kansas Hospital Authority. Of the \$35.0 million, \$8.1 million is unused and is no longer available. Final payment for this contract will be made April 1, 2005. A 1999 agreement with Koch Financial Corporation established a \$20.0 million line of credit. At June 30, 2001, \$9.2 million was unused. A Master Lease Purchase Agreement was entered into with Koch Financial Corporation dated November 1, 2000, to provide a \$5 million line of credit for financing purchases of equipment with useful lives of 7 to 15 years. An amendment dated March 26, 2001 extended the termination date of this contract to April 30, 2002. At June 30, 2001, \$3.6 million was unused.

A Master Lease Purchase agreement was entered into with Koch Financial Corporation on September 15, 1998 to provide a \$5.0 million line of credit to finance facility conservation projects for state agencies. An amendment dated August 31, 2000 extended this contract through December 31, 2001 only for projects in process. At June 30, 2001, \$4.1 million was unused. A Master Lease Purchase Agreement was entered into with Carlyle Capital Markets, Inc. dated February 1, 2001 to provide a \$3 million line of credit for facility conservation projects for state agencies. At June 30, 2001, \$3 million was unused. This program replaces the State Energy Conservation Improvement Program which provided financing for state agency energy conservation projects through the issuance of lease revenue bonds.

The Kansas Water Office has agreements to reimburse the Federal Government for the added cost incurred in providing water storage capacity in Federal flood control reservoirs. In addition, assurances have been made to the Federal Government that the State would participate in additional Federal flood control reservoirs to provide water storage capacity to meet anticipated future needs of the State. The State is not required to make payment on the future use portion of the storage space until the State calls it into use.

The State is self-insured against workers' compensation losses and medical claims of State employees through the State Workers' Compensation Self-Insurance Fund, which is included in the internal service fund category. Funding for the program is provided by a percentage assessment against State agency payrolls. For fiscal year 2001 and 2000, this assessment rate was 0.892 and 0.925 percent, respectively. The unrecorded estimated liability for unpaid claims at June 30, 2001, discounted at 5.5 percent was \$21.5 million (unaudited). The unrecorded estimated liability for unpaid claims at June 30, 2000, discounted at 5.5 percent was \$19.3 million (unaudited). This estimate for unpaid claims was made by applying generally accepted actuarial techniques to current information, including liability for claims incurred but not reported. The estimated liability for unpaid claims is not included in the accompanying financials.

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Changes in claims liability (unaudited) balance for fiscal years 2001 and 2000 were as follows (expressed in thousands):

	FY 2001	FY 2000
Beginning Balance	\$19,280	\$21,510
Changes In Estimated Liability	14,847	9,063
Less Claims Payments	(12,618)	(11,293)
<i>Present value of the total Estimated Liability</i>	<u>\$21,509</u>	<u>\$19,280</u>

Changes in Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2001 (expressed in thousands):

Description and Purpose	Amount of Original Issue (Bonds Only)	Range of Final Maturities Dates	Range of Interest Rates %	Balance July 1, 2000	Issued	Retired	Balance June 30, 2001
General Long-Term Obligations							
Revenue Bonds							
Department of Transportation	\$ 1,509,520	2005-2021	2.65-7.25	\$ 930,695	\$ 350,000	\$ 39,005	\$1,241,690
Refunding Bonds	189,195	2015	3.65-5.50	185,395	0	3,940	181,455
Total Revenue Bonds	<u>\$ 1,698,715</u>			1,116,090	350,000	42,945	1,423,145
Kansas Development Finance Authority							
Adjutant General	2,090	2016	4.35-5.13	0	2,090	0	2,090
Energy Conservation	43,054	2004-2035	3.40-6.70	33,875	0	2,495	31,380
Department of Administration	22,275	2019	3.80-5.00	5,425	16,685	175	21,935
Department of Health and Environment	419,400	2014-2023	3.25-6.25	375,820	0	7,955	367,865
Highway Patrol	5,585	2008	5.00-6.60	3,830	0	325	3,505
Department of Commerce and Housing	58,460	2003-2009	3.10-5.60	48,480	0	5,275	43,205
Board of Regents	189,186	2012	3.75-5.60	134,451	30,029	37,700	126,780
State Universities	57,210	2005-2024	3.00-7.50	41,745	9,005	11,190	39,560
Insurance Department	1,795	2007	4.70-6.50	1,090	0	115	975
Department of Corrections	28,815	2003-2020	3.75-5.625	22,015	4,530	1,640	24,905
Juvenile Justice Authority	56,895	2003-2012	4.30-6.00	5,970	48,895	315	54,550
Refunding bonds	117,155	2010-2012	3.20-5.90	61,700	0	7,045	54,655
Total KDFA	<u>\$ 1,001,920</u>			734,401	111,234	74,230	771,405
Total Bonds Outstanding-General Long-Term	<u>\$ 2,700,635</u>			1,850,491	461,234	117,175	2,194,550
Blanket Financing Payables for Equipment		2002-2012		15,791	7,473	6,928	16,336
Water Supply Storage Assurances		2023-2041	2.63-4.01	17,139	0	364	16,775
Loans Payable - State Office Buildings		2004-2007	0.00-4.52	5,083	0	355	4,728
Capital Lease Obligations		2015		23,611	0	1,039	22,572
Total General Long-term Obligations				<u>\$ 1,912,115</u>	<u>\$ 468,707</u>	<u>\$ 125,861</u>	<u>\$ 2,254,961</u>
Proprietary Fund Long-term Obligations							
Enterprise Funds							
Revenue Bonds							
State University	\$ 1,545	2009	7.125	\$ 365	\$ 0	\$ 35	\$ 330
Kansas Development Finance Authority							
State Universities	\$ 61,712	2003-2024	3.00-7.70	45,534	9,932	4,941	50,525
Refunding Bonds	12,685	2005-2008	3.70-5.75	9,365	0	4,275	5,090
Total KDFA	<u>74,397</u>			54,899	9,932	9,216	55,615
Total Bonds Outstanding - Enterprise	<u>\$ 75,942</u>			<u>\$ 55,264</u>	<u>\$ 9,932</u>	<u>\$ 9,251</u>	<u>\$ 55,945</u>
Internal Service Funds							
Loans Payable - State Office Buildings		2003-2010	4.52-7.90	\$ 6,825	\$ 0	\$ 1,033	\$ 5,792
Capital Lease Obligations		2014	4.22	16,710	0	449	16,261
Total Internal Service Funds				<u>\$ 23,535</u>	<u>\$ 0</u>	<u>\$ 1,482</u>	<u>\$ 22,053</u>

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Debt Service Requirements to Maturity

(Expressed in Thousands)

Year Ending June 30	Enterprise Funds	Internal Service Funds	Long-Term Obligations Account Group	Total
2002	\$ 6,455	\$ 1,448	\$ 212,907	\$ 220,810
2003	6,177	1,403	212,810	220,390
2004	6,009	962	211,988	218,959
2005	6,234	917	209,652	216,803
2006	4,689	873	215,424	220,986
Thereafter	51,086	1,716	2,650,657	2,703,459
Total Principal and Interest	80,650	7,319	3,713,438	3,801,407
Less Interest	24,356	1,527	1,479,923	1,505,806
Liability as of June 30, 2001	<u>\$ 56,294*</u>	<u>\$ 5,792</u>	<u>\$ 2,233,515*</u>	<u>\$ 2,295,601*</u>

* The balance includes the value of the capital accumulator bonds in the amount of \$1.5 million.

Capital Lease Requirement to Maturity

(Expressed in Thousands)

Year Ending June 30	Internal Service Funds	Long-Term Obligations Account Group	Total
2002	\$ 1,132	\$ 2,894	\$ 4,026
2003	1,178	2,872	4,050
2004	1,223	2,693	3,916
2005	1,269	1,882	3,151
2006	1,315	1,750	3,065
Thereafter	16,691	20,032	36,723
Total Principal and Interest	22,808	32,123	54,931
Less Interest	6,547	9,551	16,098
Liability as of June 30, 2001	<u>\$ 16,261</u>	<u>\$ 22,572</u>	<u>\$ 38,833</u>

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Defeasance of Debt

The State has in substance defeased certain bonds by issuing additional debt. None of the defeased bonds appear on the Combined Statement of Assets, Liabilities and Fund Balances because sufficient moneys have been set aside for payment of the bonds with a trustee.

<i>(Expressed in Thousands)</i>				
Description and Purpose	Balance July 1, 2000	Current Year Defeased	Payments	Balance June 30, 2001
<u>Defeased Bonds</u>				
Special Revenue Funds				
Department of Transportation	\$ 268,970	\$ 0	\$ 12,130	\$ 256,840
Enterprise Funds				
Fort Hays State University	432	0	111	321
Kansas State University	7,440	840	5,905	2,375
University of Kansas	530	0	130	400
Wichita State University	17	0	17	0
Trust and Agency Funds				
Department of Health & Environment	26,010	0	0	26,010
Capital Projects Funds				
Department of Corrections	16,665	0	16,665	0
Board of Regents	0	29,235	0	29,235
University of Kansas	2,955	2,670	2,955	2,670
University of Kansas Medical Center	660	0	150	510
Total Defeased Bonds	<u>\$ 323,679</u>	<u>\$ 32,745</u>	<u>\$ 38,063</u>	<u>\$ 318,361</u>

Advance and Current Refundings

On June 28, 2001, Kansas Development Finance Authority (KDFA) issued its Refunding and Improvement Revenue Bonds, Series 2001N (refunding of series 1993D, 1993G, 1993H, 1993I, and 1994A) (Kansas Board of Regents Projects), dated June 15, 2001, in the aggregate principal amount of \$14.3 million. The Authority issued the 2001N bonds to provide funds to acquire the "2001 Project Bonds" which were issued by the Authority on behalf of the Kansas Board of Regents concurrently with the Issuance of Series 2001G-1 through Series 2001G-5: (1) Series 2001G-1 bonds, consisting of the KDFA Refunding Revenue Bonds, were issued to advance refund the aggregate principal amount of \$840 thousand, Series H, 1993. These bonds will be redeemed on May 1, 2002; (2) Series G-2 Bonds, consisting of KDFA Refunding Revenue Bonds that were issued to refund the Authority's Revenue Bonds, Series D, 1993. The \$6.6 million in bonds were a current refund on July 1, 2001; (3) Series 2001G-3, were issued to refund the Authority's Revenue Bonds, Series I, 1993. The Series 1993 I bonds, \$1.7 million in aggregate principal, were redeemed on July 1, 2001; (4) Series 2001 G-4, were issued to refund the Authority's Revenue Bonds, Series G, 1993. The aggregate principal amount of \$2.9 million Series D 1993 bonds was refunded July 1, 2001; and (5) Series 2001G-5, were issued to advance refund the Authority's Revenue Bonds, Series A, 1994. The \$2.7 million in refunded bonds will be redeemed on March 1, 2002. Debt service comparison of Series 2001N and the refunded bonds indicates that approximate cash flow savings of \$512 thousand will be realized. The net present value benefit and rate will be approximately \$427

II. Detailed Notes on Financial Statements

thousand and 2.9 percent, respectively. The refunded bonds are defeased and are not shown in the financial statements.

On April 30, 2001, KDFA issued its Series 2001F Revenue Bonds for the Kansas Board of Regents-Comprehensive Rehabilitation and Repair Project dated April 15, 2001, in the amount of \$29.9 million. A portion of the proceeds was applied to advance refund the Authority's 1996 Series K bonds which mature October 2002 through October 2011. The refunded bonds will be redeemed on October 1, 2001 at the principal amount of \$29.2 million plus a premium of 1.0 percent and accrued interest to the redemption date. The net present value analysis summary comparing the refunding portion of the Series 2001F Revenue Bonds to the refunded bonds indicate a net present value benefit of approximately \$700 thousand. Cash flow savings will approximate \$806 thousand. The refunded bonds are defeased and are not shown in the financial statements.

D. Post-Employment Health Care Benefits

In addition to pension benefits, the State provides post-employment health care benefits to eligible retired employees. The benefits are provided in accordance with the rules and regulations of the Kansas State Employees Health Care Commission. The Commission is responsible for the determination of the allocation of premium costs between the participants and the State. These allocations are subject to change each contract year. The State provides a subsidy for certain health care providers. The State funds the benefits on a pay-as-you-go basis. Approximately, 9,400 retirees currently participate in the program. During the fiscal year the State's portion of the allocated cost was \$1.3 million for post-employment benefits.

III. Other Information

A. Insurance Company Security Deposits

The State requires specified amounts of deposits in the form of cash securities or other property from insurance companies doing business within Kansas. At fiscal year-end, the total aggregate value of deposits held by Kansas banks under joint custody agreements totaled \$236.5 million. These insurance deposits are not included in the combined financial statements.

B. Commitments and Contingencies

The State receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable Federal regulations. Grants are subject to the Federal Single Audit Act or to financial and compliance audits by grantor agencies. Disallowances by Federal officials as a result of these audits may become liabilities of the State. The State has not recorded any liability for disallowed costs in the Combined Financial Statements for not complying with the terms of Federal grants. State agencies that received Federal grants in fiscal year 2001 have not reported liabilities or disallowed costs associated with the receipt of those grants.

Generally, the State does not insure buildings and contents valued under \$.5 million and does not insure State-owned automobiles for bodily injury and property damages of State employees, but the State does have fidelity insurance on State employees (except Board of Regents). State buildings valued over \$.5 million are insured against catastrophic loss (unless they are bonded and the bond covenant requires insurance).

Unemployment Contributions

The State is a reimbursing employer of unemployment contributions to the Employment Security Fund. The State's contribution rate for fiscal year 2001 was 0.1 percent which resulted in a total contribution of \$1.3 million to the Employment Security Fund. This amount includes the State's payment for the quarter ended June 30, 2001, in the amount of \$0.3 million which was remitted after the close of the fiscal year.

In addition, the State remitted unemployment contributions to the following eight (8) states in fiscal year 2001 due to regulatory and reporting requirements: Missouri, Indiana, Maryland, North Dakota, South Carolina, Texas, Oklahoma, and South Dakota. The reciprocal agreement between Kansas and other states did not erase the State's liability for the above states.

Health Care Stabilization Fund (HCSF)

The HCSF provides professional liability coverage for claims in excess of \$200,000/\$600,000 for active health care providers and coverage for inactive health care providers. The individual health care provider selects a coverage limit from the Fund of \$100,000/\$300,000; \$300,000/\$900,000 or \$800,000/\$2,400,000.

The HCSF Board of Governors levies an annual surcharge on active health care providers. The surcharge is based on a rating classification system established by the HCSF Board of Governors. On June 30, 2001 the HCSF balance was \$199.9 million. Based upon the most recent actuarial evaluation, the June 30, 2001 estimated present value of the total Fund liabilities was approximately \$153.2 million (unaudited) with an indicated unassigned reserve of \$41.8 million (unaudited). This liability is not included in the accompanying financial statements.

III. Other Information

The HCSF also:

1. supports the Health Care Provider Insurance Availability Plan which provides basic professional liability insurance for those health care providers who can not obtain coverage from the voluntary insurance markets; and
2. administers the special basic coverage self-insurance programs for:
 - a) persons engaged in University of Kansas Medical Center postgraduate training programs;
 - b) persons engaged in certain other postgraduate training programs affiliated with the University of Kansas Medical Center;
 - c) full-time physician faculty employed by the University of Kansas Medical Center; and
 - d) nonprofit corporations organized to administer the graduate medical education programs of community hospitals or medical care facilities affiliated with the University of Kansas School of Medicine.

Workers' Compensation Fund

The Workers' Compensation Fund, included in the Fiduciary Fund Type, relieves an employer wholly or partially of a workers' compensation liability resulting from compensable work related accidents. The fund is liable for certain second injury claims incurred prior to July 1, 1994, and other claims specifically included in the law. The fund is financed by an annual assessment to insurance companies, self-insurers and group-funded pools.

State statutes require the fund to be accounted for on a cash basis. Based upon average amounts paid in recent years, the estimated liability of the fund, including incurred but not paid claims, was \$191.4 million (unaudited) at fiscal year-end. This liability is not included in the financial statements.

C. Retirement Plans

Kansas Public Employees Retirement System - Plan Descriptions

The Kansas Public Employees Retirement System (the System) is an umbrella organization administering the following three state-wide retirement systems under one plan as provided by K.S.A. 74 Article 49: Kansas Public Employees Retirement System (KPERs), Kansas Police and Firemen's Retirement System (KP&F) and Kansas Retirement System for Judges (Judges). All three systems are part of a tax-exempt, defined benefit, contributory plan covering substantially all public employees in Kansas. The Kansas Retirement System for Judges is a single employer group, while the other two are multi-employer groups. Participation by the State is mandatory, whereas participation by local political subdivisions is an option but irrevocable once elected. The State Elected Officials Special Members Retirement System is also administered by the System. This system is closed to new members and only a small group is participating.

The System publishes its own financial report which is available upon request from KPERs.

The System provides retirement, death and disability benefits to State employees, public school employees and employees of counties, municipalities, and certain other State political subdivisions. Although public schools are outside the State reporting entity, the State provides the required employers' contribution for public school employees' retirement benefits.

The System's total covered salaries and wages paid were approximately \$4,876.5 million. The State's total salaries and wages paid were approximately \$1,503.0 million of which approximately \$835.1 million or approximately 56.0 percent

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III. Other Information

relates to employees participating in the System. The remaining approximately 44.0 percent represents salaries and wages paid to employees, such as educational institution employees not participating in the System, employees who have not met the required tenure of employment for participation or those employees who are classified as other than "permanent" and are not eligible for participation. Information on participating employees and retirement system membership follows:

<i>Participating Employers</i>	<i>June 30, 2001</i>
KPERS	1,361
KP&F	61
Judges	1
Total	1,423

MEMBERSHIP BY RETIREMENT SYSTEM (As of June 30, 2001)

	KPERS	KP&F	Judges	Total
Retired	52,239	3,104	151	55,494
Active/Inactive	172,894	7,317	274	180,485
Total	225,133	10,421	425	235,979

Kansas Public Employees Retirement System - Plan Benefits

Members (except KP&F members) with 10 or more years of credited service may retire as early as age 55 (KP&F members may be age 50 with 20 years of credited service) with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with 10 years of service credit, or when the members combined age and years of credited service equal 85. KP&F members may elect for normal retirement at age 50 with 25 years of service, at age 55 with 20 years of service or at age 60 with 15 years of service. Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. Upon termination of employment, members may elect to withdraw the accumulated contributions from their individual account, including the interest credited to the member's account. A member who withdraws their accumulated contributions forfeits all rights and privileges accrued during membership. Members choose one of seven options to receive monthly retirement benefits. Benefit increases, including ad hoc post-retirement benefit increases, must be approved and passed into law by the Kansas legislature. Benefit increases are under the authority of the legislature and the governor of the State of Kansas.

All active members (except KP&F members) are covered by the group life insurance contract. The life insurance benefit is 150.0 percent of the annual rate of compensation at the time of death. Generally, for KPERS in cases of death as the result of an on-the-job accident, there is a \$50,000 lump sum benefit and a monthly benefit payable to a surviving spouse, minor children, or dependent parents (in this order of preference). Statutory service-connected accidental death benefits are in addition to any life insurance benefit payable to the designated beneficiary(ies). There is a \$4,000 death benefit payable to the designated beneficiary(ies) upon the death of a retirant under any system.

III. Other Information

Active members (except KP&F and Judges members) are also covered by the provisions of the disability income benefit contract. Annual disability income benefits are based upon two-thirds of the annual rate of compensation at the time of disability, less primary social security benefits, one-half of workers' compensation, and any other employment-related disability benefit, with a minimum monthly benefit of \$100. There is a waiting period of 180 continuous days from the date of disability before benefits can be paid. During the period of approved disability, the member continues to have group life insurance coverage and to accrue participating service credit.

Kansas Public Employees Retirement System - Funding Status and Progress

The law governing the Retirement System requires the actuary to make an annual valuation of the System's liabilities and reserves, and a determination of the contributions required to discharge the System's liabilities. The actuary then recommends to the System's Board of Trustees the employer contribution rates required to maintain the three systems on the actuarial reserve basis.

Every three years the actuary makes a general investigation of the actuarial experience under the System including mortality, retirement, and employment turnover. The actuary recommends actuarial tables for use in valuations and in calculating actuarial equivalent values based on such investigation. An actuarial experience study was conducted for the three years ending December 31, 2000, effective December 31, 2000. As a result of this study, the Board of Trustees adopted new assumptions in regard to retirement rates, mortality and withdrawal rates. In fiscal year 1993, the Kansas legislature passed into law legislation that amended the statutory funding method applicable to the System. For KPERS, the funding method was changed from the frozen initial liability method to the projected unit credit actuarial cost method, and provided that this method be used to determine KPERS employer contribution rates commencing with the 1993 actuarial valuation (except for TIAA members). Under the new method, the unfunded actuarial accrued liability is recalculated each year (rather than being essentially fixed in dollar amount as under the previous method). Actuarial gains and losses resulting from differences between actual and assumed experience are reflected in KPERS' accrued actuarial liabilities, and affect the amount of annual amortization payments required to amortize the unfunded accrued liability over the statutory 40-year period from July 1, 1993. The funding methods used by the System's actuary for the KP&F and the Judges remained consistent and were the aggregate cost method with supplemental liability and the frozen initial liability method, respectively. The actuary has estimated the change in the unfunded actuarial liability between June 30, 2000, and December 31, 2000, can be attributed to the following (in millions):

Unfunded Actuarial Liability, June 30, 2000	\$ 1,233
Full impact of change in calculation procedures on 6/30/00 UA	302
Effect of contribution cap/time lag	60
Expected increase due to amortization method	12
Gain from investment return	(23)
Liability experience	96
All other experience	(12)
Change in benefit provisions	0
Change in actuarial assumptions	(206)
Re-establishment of UAL for KP&F	(157)
Unfunded Actuarial Liability, December 31, 2000	\$ <u>1,305</u>

III. Other Information

Kansas Public Employees Retirement System - Contributions

Member contributions (from 4.0 percent to 7.0 percent of gross compensation), employer contributions and net investment income fund the reserves of the System. Member contribution rates for covered payroll are established by State law and are paid by the employer in accordance with provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined annually based on the results of annual actuarial valuations, as the System is funded on an actuarial reserve basis. Contribution rates for KP&F, TIAA and Judges are set at the actuarial rate; however, State of Kansas legislation has placed statutory limitations on annual increases in the contribution rates for KPERS employers. During the 1995 legislative session, the statutory limits were increased to 0.2 percent of payroll over the prior year for fiscal years beginning in 1996 for state and school employers. Beginning in calendar year 1997, the statutory increase for local units of government is limited to no more than 0.15 percent over the prior year. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. Employer contributions for group life and long-term disability are set by statute at 0.6 percent for KPERS and 0.4 percent for Judges. Per Senate Substitute for House Bill 2624, passed by the 2000 Legislature, employers did not make contributions for group life and long-term disability for the period April 1, 2000 to June 30, 2001.

Kansas Public Employees Retirement System - Contributions Required and Contributions Made

The actuarially determined contribution rates are computed as a level percentage of salary by the Retirement System's actuary. The results of 1997 and 1998 actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years ending June 30, 2000 and June 30, 2001 respectively. The actuarially determined employer contribution rates derived from the actuarial valuations for fiscal years ending 2000 and 2001 are as follows:

	Fiscal Year	Fiscal Year
KPERS Membership Groups	2000	2001
State/School Employees	5.27%	6.15%
Certain Correctional Employees	5.82/6.28	7.02/7.64
TIAA Employees	1.82	1.81

Legislation has limited the amounts that employers are required to contribute for State/School employees and Local employees, which has resulted in lower employer contribution rates as compared to the actuarial determined rates shown above. For fiscal years ended June 30, 2000 and June 30, 2001, the employer contribution rates for State/School employees were 4.19 percent and 3.98 percent, respectively.

The results of 1998 and 1999 actuarial valuations provide the basis for Board certification of local employer contribution rates for fiscal years beginning in 2000 and 2001, respectively. The actuarially determined employer contribution rates derived from the actuarial valuations for fiscal years beginning in year 2000 and 2001 are 3.89 percent and 3.88 percent, respectively. The actual employer rate for local employees were 3.22 percent in 2000 and 2.77 percent in 2001.

KP&F The uniform participating service rate for all KP&F employers was 7.35 percent for the fiscal year beginning in 2000 and 6.97 percent for the fiscal year beginning in 2001. KP&F employers also make contributions to amortize the liability for past service costs, if any, which are determined separately for each participating employer.

Judges The total actuarially determined employer contribution rate was 14.38 percent of payroll for the fiscal year ended 2000 and 15.74 percent of payroll for the fiscal year ended 2001. The law specifies employee contributions as: Each participating employer, beginning with the first payroll for services performed after the entry date, shall deduct from

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the compensation of each member 4.0 percent for KPERS members, 7.0 percent for KP&F members and 6.0 percent for Judges members of such member's compensation as employee contributions.

All contributions required by law to be made have been made as follows:

(Expressed in Thousands)

	Employer and Insurance Contributions	Member Contributions ⁽¹⁾	Contributions As a Percent of Covered Payroll
KPERS - State/School , TIAA	\$ 131,929	\$ 133,623	8.2 %
KPERS - Local	27,101	42,410	8.9
KP&F	31,133	19,644	22.0
Judges	3,221	1,040	23.1
<i>Total</i>	<u>\$ 193,384</u>	<u>\$ 196,717</u>	<u>9.1 %</u>

An estimated \$328.7 million of employer & employee contributions were made to cover normal cost, and an estimated \$61.0 million was made for the amortization of the unfunded actuarial accrued liability.

⁽¹⁾ Member Contributions do not include Optional Life Insurance contributions of approximately \$7.4 million.

Three-year historical data is presented below to provide information about the progress the System is making in accumulating sufficient assets to pay benefits and employer contributions expressed as a percentage of covered wages:

(Expressed in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll	Employer Contributions As a Percentage of Covered Wages
6/30/99	8,601,876	9,999,246	86%	1,397,370	4,480,717	31	4.5
6/30/00	9,568,275	10,801,397	89%	1,233,122	4,684,768	26	4.0
12/31/00 (1)	9,835,182	11,140,014	88%	1,304,832	4,876,555	27	4.0

1) The asset valuation date was changed to a calendar year basis

Other Retirement Plans

Faculty and other eligible unclassified employees of the Board of Regents (Regents) or educational institutions under its control must participate in the Regents retirement plan. Authorized by statute, this defined contribution plan is funded through contributions by the employees and the Regents for the purchase of retirement annuities. Employees must participate in the plan after one year of service or at date of employment if they contributed to a similar plan for at least one year. The contributions are fully vested with the first contribution.

Employees participating in the Regents mandatory retirement plan are required to contribute 5.5 percent of their salary toward the purchase of their retirement annuity. During fiscal year 2001, employees contributed approximately \$24.5 million. During fiscal year 2001, the 8.5 percent employer contribution totaled \$37.9 million, representing covered wages of approximately \$446.1 million. These employees may also elect to participate, up to the maximum dollar

III. Other Information

amount permitted by the Internal Revenue Code, in the voluntary tax-sheltered annuity program, which allows the member to purchase a tax-sheltered annuity contract as a supplement to the basic retirement program. Certain employees are covered by a retirement annuity plan which is closed to new members.

On July 1, 1971, the control of the School for the Blind and the School for the Deaf was transferred from the Regents to the State Board of Education. Employees covered by the Regents retirement at the time of the transfer could continue to purchase a retirement annuity or convert to KPERS. Employees who elected the annuity plan contribute 5.0 percent of their salary toward an annuity purchase. This is matched by a 5.0 percent employer contribution. During fiscal year 2001, \$14,000 was contributed by employers for employees annuities representing covered wages of approximately \$281,000.

D. Litigation

The State is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of State and Federal laws. Known claims, asserted and unasserted, have been evaluated for the likelihood of an unfavorable outcome and the ability to estimate the amount or range of potential loss in the event of an unfavorable outcome. After review, it is the State's opinion that its ultimate liability in these cases, if any, is not expected to have a material adverse effect on the State's financial position.

E. Subsequent Events

Subsequent to June 30, 2001, KDFA issued \$38.6 million in KDFA Revenue Bonds, Series 2001S, State of Kansas Projects. The Series 2001S Revenue Bonds were issued to provide funds to acquire a pooled series of bonds, \$5.8 million Series 2001L bonds, \$9.3 million Series 2001O bonds, \$0.8 million Series 2001P bonds, \$19.7 million Series 2001Q bonds, and \$3.0 million Series 2001R bonds. The Series 2001L Lease Revenue Bonds (Department of Administration – Kansas Public Broadcasting Council Digital Conversion Project) were issued to fund capital improvements and equipment acquisitions to convert public television stations to digital broadcasting. The Series 2001O Lease Revenue Bonds were issued for the Department of Administration State Building Renovation Projects. The Series 2001P Energy Conservation Refunding Revenue Bonds, Kansas Board of Regents Institutions Projects, were issued to refund the Authority's Energy Conservation Revenue Bonds, Series 1992G. The Series 2001Q Refunding Revenue Bonds were issued for the Department of Corrections – El Dorado and Larned Projects to refund the Authority's Revenue Bonds, Series 1992L. The Series 2001R Refunding Revenue Bonds were issued for the Kansas Highway Patrol Central Training Facility to refund the Authority's Revenue Bonds, Series 1992T.

On August 9, 2001, KDFA issued \$10.3 million in KDFA Revenue Bonds, dated August 1, 2001, Series 2001U, with interest rates ranging from 3.10 percent to 5.00 percent. The Series 2001U Revenue Bonds were issued for the Kansas Board of Regents – University of Kansas Projects and mature April 2002 through April 2021. These bonds were issued to provide funds to acquire Series 2001T-1 and Series 2001T-2 bonds, issued concurrently with Series 2001U. KDFA issued \$5.9 million in KDFA Revenue Bonds, Series 2001T-1, with interest rates ranging from 3.10 percent to 5.00 percent. The Series 2001T-1 bonds were issued for the Kansas Board of Regents University of Kansas Medical Center Research Support Facility Project and mature April 2003 through April 2021. KDFA also issued \$4.4 million in KDFA Revenue Bonds, Series 2001T-2 bonds, with interest rates ranging from 3.10 percent to 4.75 percent. Series 2001T-2

State of Kansas
Notes to the Financial Statements
June 30, 2001

III. Other Information

was issued for the Kansas Board of Regents University of Kansas Student Union Renovation and Expansion Project to pay a portion of construction costs. These bonds mature April 2002 through April 2013.

In August 2001, KDFA issued \$1.7 million in KDFA short-term Anticipation Notes, Series 2001, with an interest rate of 3.50 percent. The notes were issued for the Department of Human Resources Projects to provide temporary funding of capital improvement projects. The Notes mature in August 2002.

On September 19, 2001, the Authority issued \$141.0 million in Kansas Water Pollution Control Revolving Fund Revenue Bonds, Series 2001 I (State Match Bonds) and 2001 II (Leveraged Bonds) with interest rates ranging from 3.00 percent to 5.50 percent. The Series 2001 I bonds were issued in the amount of 16.5 million and mature November 2002 through November 2016. The Series 2001 II bonds in the amount of \$124.5 million will mature November 2002 through November 2021. The bonds were issued to provide loans to Kansas municipalities for wastewater treatment projects and to advance refund \$92.6 million aggregate principal amount for Series 1993 I, Series 1995 I, Series 1997 II, and Series 2000 II bonds.

KDFA issued Series 2001M Revenue Bonds in the amount of \$32.4 million on October 16, 2001, dated October 1, 2001. The Series 2001M Revenue Bonds were issued for the Kansas Department of Commerce and Housing IMPACT Program – 2001 Project to provide training of workers and other Program Services for New Jobs to be created for new or expanding Kansas Basic Enterprises and for Major Project Investments.

The Authority has issued a preliminary resolution approving the issuance of refunding lease revenue bonds, Series 2001J (Juvenile Detention Facilities Project) not to exceed \$6.7 million to provide funds to refund the Series 1992H Bonds to achieve interest cost savings. The official bond issue should be dated in November 2001.

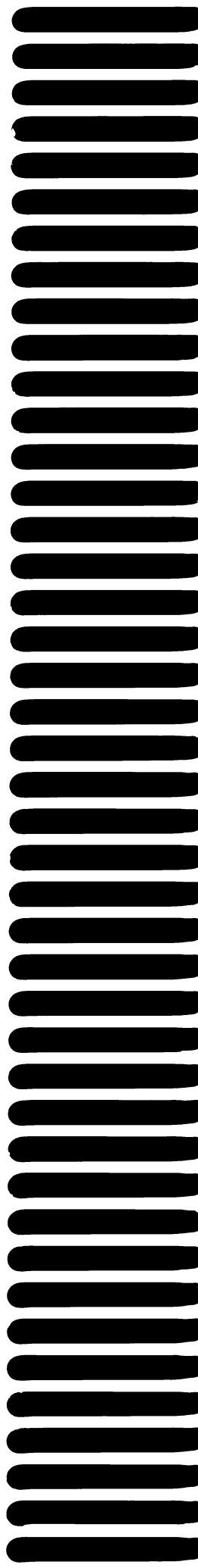
The Authority has issued Bond Resolution No. 169 which authorizes the Authority to issue its KDFA Lease Revenue Bonds, Series 2001W (State of Kansas projects) in the principal amount of approximately \$50.7 million on November 1, 2001. This provides an opportunity to achieve interest cost savings in the marketing of a pooled series of bonds to acquire the Series 2001W-1, the Series 2001W-2, the Series 2001W-3, the Series 2001W-4, the Series 2001W-5 and the Series 2001W-6 bonds. The Authority has authorized the issuance of Series 2001W-1 Department of Human Resources Acquisitions and Renovation Projects, \$1.8 million; Series 2001W-2 Department of Health and Environment Vital Statistics Systems Project, \$3.4 million; Series 2001W-3 Kansas State Fair Board Fairgrounds Renovation Project, \$17.9 million; Series 2001W-4 Department of Administration Judicial Center Improvements Project, \$1.1 million; Series 2001W-5 Department of Administration State Capitol Restoration Project, \$24.5 million; and Series 2001W-6 Adjutant General of Kansas Army National Guard Armories Renovation Project, \$2.0 million.

The Authority has drafted preliminary Resolution No. 174 which when adopted will authorize the Authority to issue Anticipation Notes, Series 2001-2 (Kansas Highway Patrol Fleet Operations Center Project) to provide temporary funding of a capital improvement project. The Board of Directors plans to adopt the resolution on November 2, 2001. The amount of the temporary note is unknown at this time.

**STATISTICAL
SECTION**



Docking State Office Building



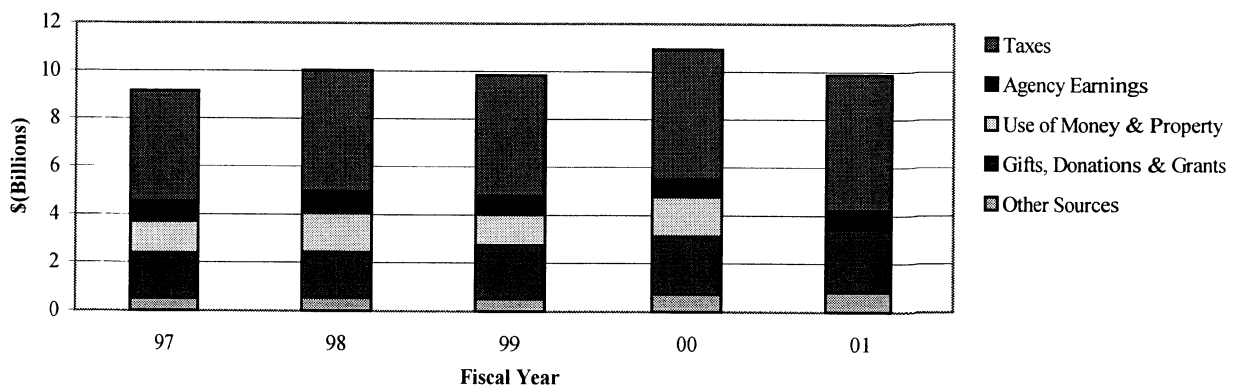
State of Kansas
Combined Funds
June 30, 2001

Comparative Statement of Revenues

Expressed in Thousands

REVENUES CLASSIFIED BY OBJECT	2001	2000	Increase/ (Decrease)
Taxes			
Property (Ad Valorem)	\$ 52,149	\$ 48,600	\$ 3,549
Income and Inheritance	2,266,379	2,196,930	69,449
State Sales and Compensating Use	2,292,766	2,257,470	35,296
Cigarette and Tobacco Products	52,876	52,898	(22)
Motor Fuel	358,899	358,569	330
Cereal Malt and Liquor	77,530	73,436	4,094
Motor Vehicle Registration	136,685	138,696	(2,011)
Insurance Companies	77,211	70,139	7,072
Severance Tax on Minerals	109,180	56,956	52,224
Other Excise	23,875	27,180	(3,305)
Other Gross Receipts	24,726	24,379	347
Payroll Unemployment	176,337	107,655	68,682
Total Taxes	<u>5,648,613</u>	<u>5,412,908</u>	<u>235,705</u>
Agency Earnings	760,574	746,826	13,748
Revenue from the Use of Money and Property	(376,775)	1,651,354	(2,028,129)
Gifts, Donations and Grants			
Federal Grants	2,562,927	2,309,640	253,287
Other Grants and Gifts	70,860	79,225	(8,365)
Total Gifts, Donations and Grants	<u>2,633,787</u>	<u>2,388,865</u>	<u>244,922</u>
Reimbursements and Refunds	460,890	295,001	165,889
Other Revenues	369,184	406,410	(37,226)
TOTAL REVENUES	<u>\$ 9,496,273</u>	<u>\$ 10,901,364</u>	<u>\$ (1,405,091)</u>

Five Year Comparison Revenues by Object

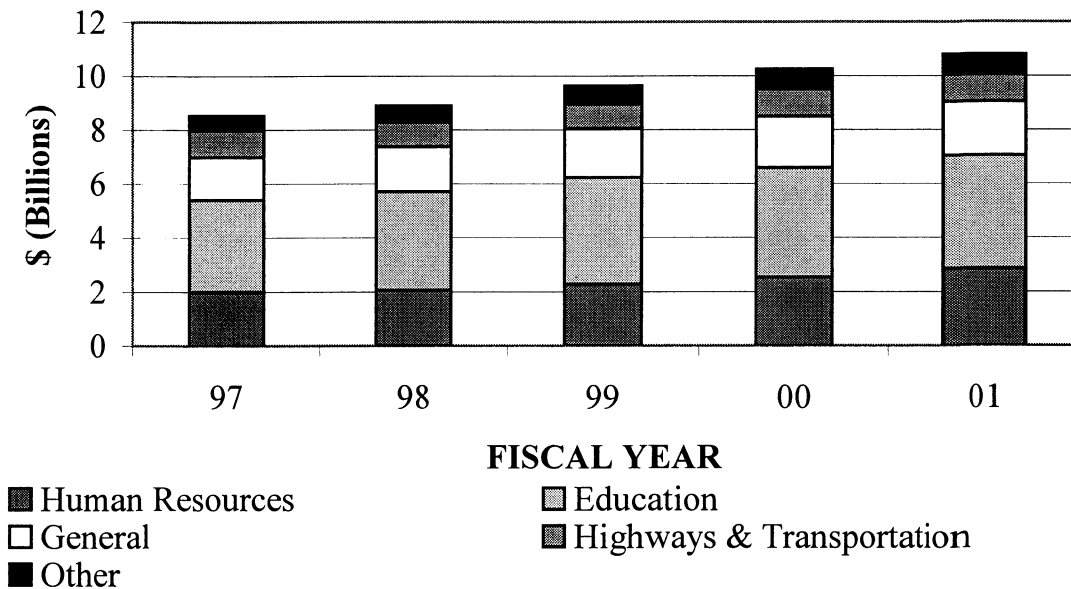


State of Kansas
Combined Funds
June 30, 2001

Comparative Statement of Expenditures/Expenses by Function

EXPENDITURES/EXPENSES CLASSIFIED BY FUNCTION	Expressed in Thousands		Increase/ (Decrease)
	2001	2000	
Education	\$ 4,179,714	\$ 4,071,498	\$ 108,216
Human Resources	2,851,862	2,514,885	336,977
General Government	1,992,312	1,906,046	86,266
Highways and Other Transportation	998,581	1,009,995	(11,414)
Public Safety	419,583	407,736	11,847
Agriculture and Natural Resources	133,408	147,352	(13,944)
Debt Service	210,214	186,386	23,828
TOTAL EXPENDITURES/EXPENSES	\$ 10,785,674	\$ 10,243,898	\$ 541,776

**Five Year Comparison Expenditures/Expenses by
Function**



State of Kansas
Combined Funds
June 30, 2001

Comparative Statement of Expenditures/Expenses by Object

EXPENDITURES/EXPENSES CLASSIFIED BY OBJECT	Expressed in Thousands		
	2001	2000	Increase/ (Decrease)
Expenditures/Expenses for State Operations and Services			
Salaries and Wages	\$ 1,819,148	\$ 1,751,657	\$ 67,491
Contractual Services	884,862	864,747	20,115
Commodities.....	173,811	166,975	6,836
Capital Outlay	100,130	112,875	(12,745)
TOTAL EXPENDITURES/EXPENSES FOR STATE OPERATIONS AND SERVICES	2,977,951	2,896,254	81,697
TOTAL EXPENDITURES/EXPENSES FOR HIGHWAY AND OTHER CAPITAL IMPROVEMENTS	634,184	741,700	(107,516)
TOTAL EXPENDITURES FOR LOCAL ASSISTANCE	3,078,513	2,980,208	98,305
Expenditures for Other Claims and Grants			
Direct Welfare Assistance	1,920,636	1,620,484	300,152
Homestead Property Tax Relief Payments	16,785	14,973	1,812
Other Claims and Grants.....	1,169,763	1,118,171	51,592
TOTAL EXPENDITURES FOR OTHER CLAIMS AND GRANTS.....	3,107,184	2,753,628	353,556
TOTAL EXPENDITURES FOR EMPLOYMENT SECURITY BENEFITS.....	218,745	179,844	38,901
TOTAL EXPENDITURES FOR RETIREMENT PAYMENTS	558,883	505,878	53,005
REIMBURSEMENTS/EXPENSES AND REFUNDS			
Expenditures/Expenses for Debt Service			
Debt Service Principal.....	102,246	97,621	4,625
Debt Service Interest.....	107,968	88,765	19,203
TOTAL EXPENDITURES/EXPENSES FOR DEBT SERVICE	210,214	186,386	23,828
TOTAL EXPENDITURES/EXPENSES	\$ 10,785,674	\$ 10,243,898	\$ 541,776

State of Kansas
Combined Funds
June 30, 2001

Local Assistance Expenditures

PURPOSE AND PROGRAM	Expressed in Thousands	
	Federal	State
Education		
State General Aid	\$ 0	\$ 1,893,231
Community College and Municipal University.....	0	83,807
Education of Deaf, Blind and Handicapped	46,903	108
Vocational Education	11,231	19,578
Goals 2000 Federal Fund	4,423	0
Retirement Contribution for School District Employees.....	0	88,462
State Safety Funds.....	0	1,576
State School District Finance Fund	0	16,318
Elementary and Secondary Education	77,822	0
Food Assistance.....	64,158	2,363
Adult Basic Education.....	2,928	5,719
Aid for Libraries.....	365	3,768
School District Capital Improvement Fund.....	0	30,676
Special Education	0	247,991
Educational Research & Inservice Aid.....	1,607	4,629
School District Juvenile Detention Facilities & Flint Hills Job Corps Center	0	4,703
Economic Security Act.....	2,055	9,773
Drug Abuse Fund	2,754	0
Other Aid for Education	10,437	488
GROSS AID FOR EDUCATION	224,683	2,413,190
Human Resources		
Area Agencies on Aging	3,642	2,554
Family and Children Investment	0	3,065
Health and Environment Local Units	13,052	4,239
Social and Rehabilitation Services Assistance	7,626	11,633
GROSS AID FOR HUMAN RESOURCES.....	24,320	21,491
General Purposes		
Rental Motor Vehicle Excise Tax	0	2,720
Housing	2,807	33
County and City Revenue Sharing	0	34,531
Local Ad Valorem Tax Reduction	0	54,137
Local Alcoholic Liquor	0	17,009
Firefighters Relief.....	0	5,440
County Mineral Production Tax.....	0	6,914
Community Development	19,018	8,240
County Drug Tax.....	0	703
Other Aid for General Purposes	6,480	2,009
GROSS AID FOR GENERAL PURPOSES	28,305	131,736
Other Assistance (Transportation, Agriculture & Natural Resources, Public Safety)		
GROSS AID FOR OTHER ASSISTANCE	23,004	211,784
GROSS AID TO LOCAL UNITS.....	\$ 300,312	\$ 2,778,201

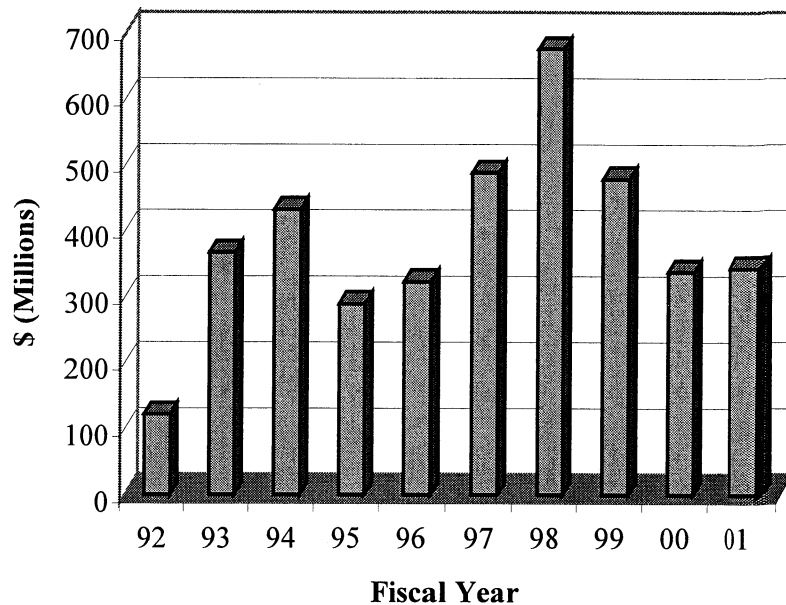
State of Kansas
State General Fund
June 30, 2001

Comparison of Resources Available for Appropriations

	Expressed in Thousands		
	2001	2000	Increase/ (Decrease)
RESOURCES AVAILABLE FOR APPROPRIATIONS			
State Treasury's Balance at June 30	\$ 424,089 *	\$ 429,755 *	\$ (5,666)
Less Outstanding Obligations			
Unredeemed Warrants and Vouchers Payable	21,560	20,494	1,066
Unliquidated Encumbrances	36,964	36,068	896
Appropriation Balances Reappropriated	22,783	35,673	(12,890)
Total Outstanding Obligations at June 30	81,307	92,235	(10,928)
UNENCUMBERED BALANCE AVAILABLE TO FINANCE SUCCEEDING FISCAL YEAR APPROPRIATIONS AT JUNE 30	\$ 342,782 *	\$ 337,520 *	\$ 5,262

* Please see page P for budget basis amounts.

Ten Year Comparison General Fund Balance



State of Kansas
State General Fund
June 30, 2001

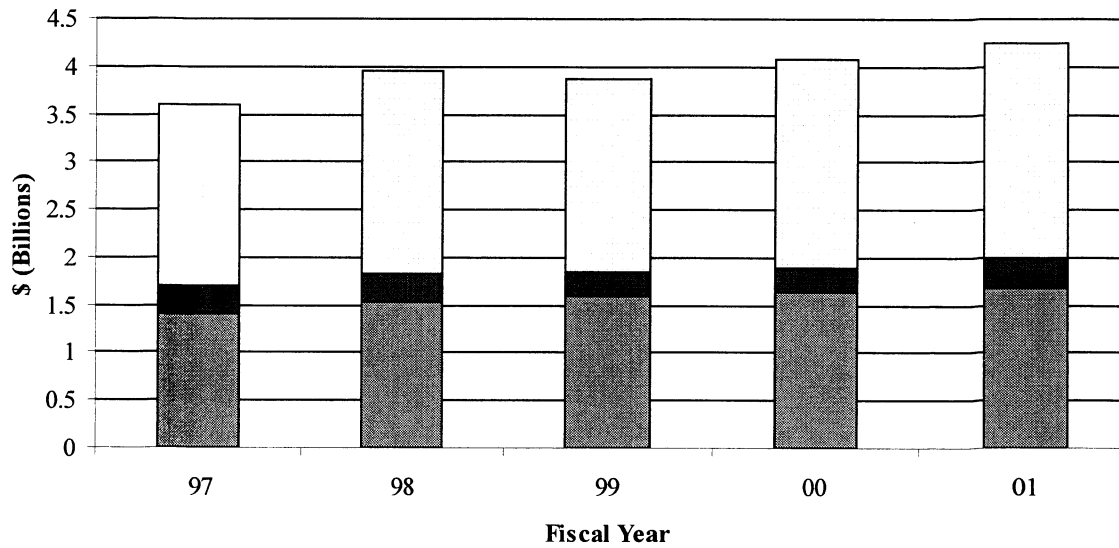
Comparative Statement of Revenues

	Expressed in Thousands		
	2001	2000	Increase/ (Decrease)
REVENUES			
Property	\$ 17,920	\$ 16,125	\$ 1,795
Income and Inheritance	2,255,261	2,190,032	65,229
Sales and Compensating Use	1,673,857 *	1,635,365 *	38,492
Cigarette	48,784	49,124	(340)
Cereal Malt Beverage	2,489	2,431	58
Liquor Enforcement	35,351	33,336	2,015
Liquor Gallonage and Private Club	20,728	20,033	695
Tobacco Products	4,092	3,773	319
Corporation Franchise	16,927	16,834	93
Telephone	0	53	(53)
Insurance Companies	887	866	21
Life Insurance Companies	67,680	60,675	7,005
Income Tax	519	303	216
Transient Guest Tax	367	341	26
Severance Tax on Minerals	101,537	52,969	48,568
Marijuana and Controlled Substances	325	367	(42)
Other Gross Receipts	14	18	(4)
TOTAL TAX REVENUES	<u>4,246,738 *</u>	<u>4,082,645 *</u>	<u>164,093</u>
NON-TAX REVENUES			
Agency Earnings			
Service Charges	8,012	8,104	(92)
Licenses, Permits and Registrations	5,081	4,975	106
Sales of Commodities	913	342	571
Grain and Pecan Marketing Assessments	0	47	(47)
Total Agency Earnings	<u>14,006</u>	<u>13,468</u>	<u>538</u>
Revenue From the Use of Money and Property			
Interest and Dividends	71,765	76,696	(4,931)
Amortization on Securities	54	(4)	58
Total Revenue From Use of Money and Property	<u>71,819</u>	<u>76,692</u>	<u>(4,873)</u>
Reimbursements and Refunds	2,188	1,944	244
Other Non-Tax Revenues	25,322	29,222	(3,900)
TOTAL NON-TAX REVENUES	<u>113,335</u>	<u>121,326</u>	<u>(7,991)</u>
TOTAL REVENUES	<u>\$ 4,360,073 *</u>	<u>\$ 4,203,971 *</u>	<u>\$ 156,102</u>

* The reported sales tax figure in fiscal year 2000 above is \$14.9 million less than the sales tax revenue figure shown in certain budget documents. This is because the budget documents were prepared using the best available figure at the time they had to be finalized. After finalization of the budget documents, information became available that allowed an adjustment to more accurately reflect the State and local share of sales tax revenue. In fiscal year 2001 the sales tax figure is \$14.9 million more than the figure shown in certain budget documents. The adjusted figures above are reflected in the State's financial statements.

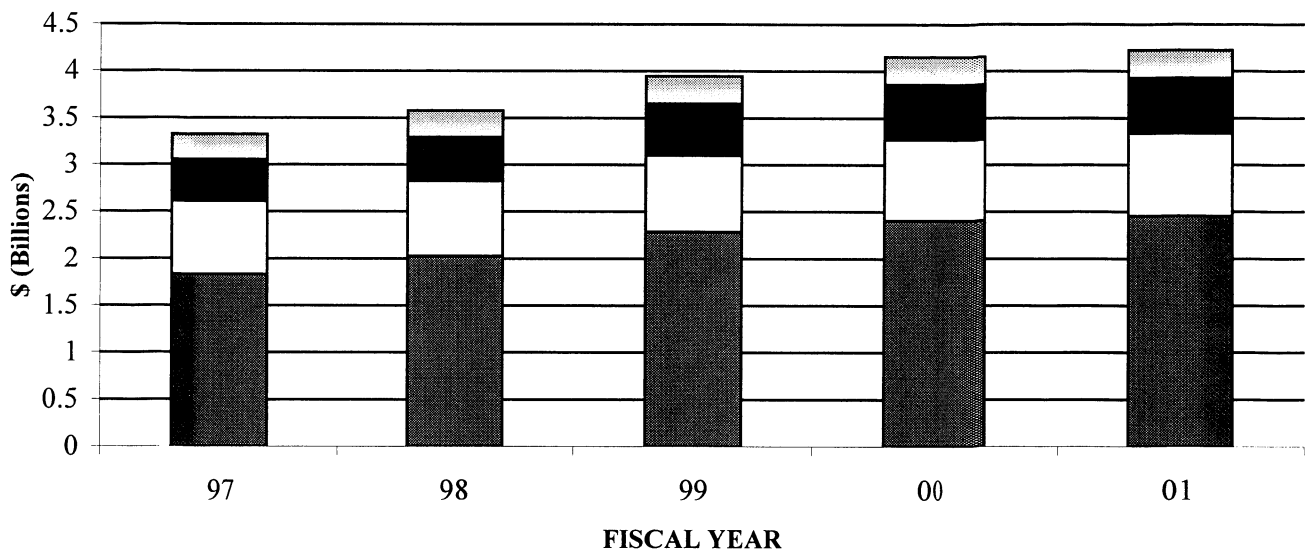
Five Year Comparisons

Tax Revenues By Object



■ Sales & Compensating ■ Other Taxes □ Income & Inheritance

Expenditures By Object



■ Aid to Local Governments ■ Other Shared Revenue □ Salaries & Benefits □ Other Expenditures

State of Kansas
State General Fund
June 30, 2001

Comparative Statement of Expenditures and Other Financing Uses

EXPENDITURES BY OBJECT	Expressed in Thousands		
	2001	2000	Increase/ (Decrease)
Salaries & Wages	\$ 881,018	\$ 860,238	\$ 20,780
Contractual Services.....	228,108	232,589	(4,481)
Commodities	39,598	41,567	(1,969)
Capital Outlay.....	26,712	24,354	2,358
Grants, Claims and Shared Revenue			
By Department on Aging	10,283	8,257	2,026
By Social and Rehabilitation Services	54,501	61,205	(6,704)
Retirement Contributions for Local School District Employees..	88,462	87,889	573
Local and Regional Libraries.....	3,661	4,002	(341)
Aid to Local School Districts.....	2,139,765	2,097,645	42,120
Municipal University Operating Grant	9,270	8,188	1,082
Community College Operating Grant	74,087	60,937	13,150
Post Secondary Aid for Vocational Education.....	19,508	19,508	0
By Juvenile Justice Authority	23,319	26,294	(2,975)
By Department of Corrections	16,769	17,135	(366)
By Department of Health and Environment	9,547	9,549	(2)
Other Grants to Local Units	6,719	8,100	(1,381)
Total Aid for Local Units	2,455,891	2,408,709	47,182
Direct Social Welfare Assistance.....	557,219	548,730	8,489
Homestead Property Tax Relief.....	13,082	14,973	(1,891)
Other State Grants and Claims.....	24,160	24,585	(425)
Total Grants, Claims and Shared Revenue	3,050,352	2,996,997	53,355
TOTAL EXPENDITURES	4,225,788	4,155,745	70,043
Other Financing Uses			
Local Ad Valorem Tax Reduction Fund.....	54,137	57,903	(3,766)
State Fair Capital Improvements Fund	300	300	0
County and City Revenue Sharing Fund.....	34,531	36,932	(2,401)
State Water Plan Fund	4,750	6,000	(1,250)
Special County and City Highway Fund.....	10,343	11,182	(839)
State Highway Fund	51,709	62,240	(10,531)
School District Capital Improvements Fund.....	30,676	26,098	4,578
Transfer and Non-Expense Items.....	(45,432)	36,437	(81,869)
TOTAL OTHER FINANCING USES	141,014	237,092	(96,078)
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 4,366,802	\$ 4,392,837	\$ (26,035)
 EXPENDITURES BY FUNCTION			
General Government (Includes Debt Service).....	179,083	181,609	(2,526)
Human Resources	786,857	793,066	(6,209)
Education.....	2,934,340	2,854,070	80,270
Public Safety.....	299,009	299,883	(874)
Agriculture and Natural Resources.....	26,499	27,117	(618)
TOTAL EXPENDITURES	\$ 4,225,788	\$ 4,155,745	\$ 70,043

State of Kansas
State General Fund
June 30, 2001

**Combined Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget Basis**

	Expressed in Thousands		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES AND FINANCING SOURCES			
Taxes			
Property	\$ 18,500	\$ 17,920	\$ (580)
Income and Inheritance	2,263,000	2,255,261	(7,739)
State Sales	1,425,000	1,437,963 *	12,963
Consumer's and Retailer's Compensating	225,000	235,894	10,894
Tobacco and Liquor	110,100	111,443	1,343
Insurance Premiums	62,000	67,680	5,680
Severance	99,900	101,537	1,637
Other.....	20,000	19,040	(960)
Total Taxes	4,223,500	4,246,738	23,238
Other Revenue and Financing Sources			
Interest, Dividends, Premiums and Discounts	79,300	82,009	2,709
Transfers	68,025	59,730	(8,295)
Agency Earnings, Other Revenue and Financing Sources.....	41,100	41,442	342
TOTAL REVENUES AND FINANCING SOURCES	4,411,925	4,429,919	17,994
EXPENDITURES AND FINANCING USES			
General Government	187,185	182,557	4,628
Human Resources.....	794,167	788,626	5,541
Education	2,945,158	2,935,139	10,019
Public Safety	314,358	311,558	2,800
Agriculture and Natural Resources	26,385	26,009	376
Demand Transfers	185,022	186,446	(1,424)
TOTAL EXPENDITURES AND FINANCING USES	4,452,275	4,430,335	21,940
EXCESS OF REVENUES/SOURCES OVER(UNDER) EXPENDITURES/USES (BUDGET BASIS)	(40,350)	(416)	39,934
RECONCILIATION OF BUDGETARY REPORTING:			
Adjust to include encumbrances.....		31,268	
Adjust to exclude prior budget fiscal year expenditures		(27,394)	
Adjust for change in imprest fund.....		3	
Adjust to report pooled investments at fair value.....		(10,190)	
EXCESS OF REVENUES/SOURCES OVER (UNDER) EXPENDITURES/USES (MODIFIED CASH BASIS)		\$ (6,729)	

* The reported sales tax figure in fiscal year 2000 above is \$14.9 million less than the sales tax revenue figure shown in certain budget documents. This is because the budget documents were prepared using the best available figure at the time they had to be finalized. After finalization of the budget documents, information became available that allowed an adjustment to more accurately reflect the State and local share of sales tax revenue. In fiscal year 2001 the sales tax figure is \$14.9 million more than the figure shown in certain budget documents. The adjustment figures above are reflected in the State's financial statements.

State of Kansas
Transportation Funds
June 30, 2001

Comparative Combined Statement of Revenues and Expenditures

	Expressed in Thousands	
	2001	2000
REVENUES		
State Sales and Compensating Use Taxes	\$ 90,042	\$ 87,797
Motor Fuel Taxes	356,399	356,069
Motor Vehicle Registration Taxes.....	132,439	134,289
Agency Earnings	10,859	12,299
Revenue From the Use of Money and Property	76,372	31,446
Gifts, Donations and Federal Grants	305,355	326,463
Reimbursements and Refunds	1,186	7,219
Other Operating Revenue	45	21
TOTAL REVENUES	<u>972,697</u>	<u>955,603</u>
EXPENDITURES		
Salaries and Wages.....	127,582	118,359
Contractual Services.....	80,307	85,008
Commodities	28,858	24,294
Capital Outlay (Other).....	42,039	47,521
Highways and Bridges.....	545,022	569,078
Shared Revenue Distributed to Cities, Counties and Townships	154,204	152,294
State Aid to State and Qualified Non-State Organizations.....	12,746	5,760
Federal Aid to State and Qualified Non-State Organizations.....	6,957	6,952
Claims.....	867	730
Debt Service		
Principal	42,945	40,945
Interest.....	66,596	53,217
TOTAL EXPENDITURES	<u>1,108,123</u>	<u>1,104,158</u>
OTHER FINANCING SOURCES (USES)		
Borrowings	356,229	327,271
Conversion of Assets.....	735	1,267
Transfers (Net)	31,474	35,166
Other Financing Sources (Uses).....	(1,547)	(394)
TOTAL OTHER FINANCING SOURCES (USES)	<u>386,891</u>	<u>363,310</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ 251,465</u>	<u>\$ 214,755</u>

State of Kansas
Employment Security Fund
June 30, 2001

Comparative Statement of Revenues, Expenditures, and Changes in Fund Balance

On a Modified Cash Basis

	Expressed in Thousands	
	2001	2000
REVENUES		
Taxes (Employer Payroll Contributions).....	\$ 176,337	\$ 107,655
Interest on Deposits with U.S. Treasury.....	32,229	32,130
Interest on Reed Act Deposits	0	721
Interest on State Treasury Investments.....	167	200
Federal Grants	8,235	5,527
Reimbursements and Refunds	14,362	11,239
TOTAL REVENUES	231,330	157,472
EXPENDITURES		
Regular Unemployment Benefits	211,202	174,361
Federal Employees Unemployment Benefits	2,574	2,079
Ex-Military Unemployment Benefits	1,598	1,316
Disaster Unemployment Assistance	10	19
NAFTA-Trade.....	158	0
Worker Adjustment Unemployment Assistance	3,203	2,069
Employment Security Refund	48	2
TOTAL EXPENDITURES	218,793	179,846
OTHER FINANCING SOURCES (USES)		
Transfers (Net)	(1,336)	(678)
Other Financing Sources (Uses).....	83	52
TOTAL OTHER FINANCING SOURCES (USES)	(1,253)	(626)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	11,284	(23,000)
Fund Balance, July 1	501,840	524,840
FUND BALANCE, JUNE 30	\$ 513,124	\$ 501,840

State of Kansas
State Bonded Indebtedness
June 30, 2001

Debt Service Principal Requirements to Maturity by Fund Type

Fiscal Year	Expressed in Thousands				Fiscal Year Total
	Special Revenue Funds	Enterprise Funds	Trust and Agency Funds	Capital Projects Funds	
2002	45,425	3,974	15,160	27,805	92,364
2003	47,755	3,873	17,600	27,595	96,823
2004	50,250	3,821	19,220	26,900	100,191
2005	53,115	4,121	20,355	29,055	106,646
2006	70,230	2,716	21,835	23,220	118,001
2007	66,325	2,836	21,965	23,040	114,166
2008	68,965	3,866	23,375	24,250	120,456
2009	73,020	2,756	22,185	24,155	122,116
2010	79,370	2,751	19,240	21,295	122,656
2011	87,205	2,335	19,670	25,415	134,625
2012	88,415	2,455	20,720	21,771	133,361
2013	81,465	3,335	21,680	7,130	113,610
2014	66,175	1,960	26,240	5,740	100,115
2015	66,225	1,695	22,750	6,025	96,695
2016	69,875	365	17,080	6,620	93,940
2017	74,050	4,215	26,445	5,645	110,355
2018	77,770	405	22,150	8,735	109,060
2019	83,290	430	12,265	10,040	106,025
2020	87,875	445	15,745	8,400	112,465
2021	92,000	6,590	17,300	8,260	124,150
2022	0	275	5,990	0	6,265
2023	0	290	2,100	1,175	3,565
2024	0	785	0	0	785
2025-2027	0	0	0	0	0
2028	0	0	0	8,525	8,525
2029-2034	0	0	0	0	0
2035	0	0	0	5,010	5,010
Total Due	1,428,800	56,294 *	411,070	355,806 *	2,251,970

* These balances include the maturity value of the capital accumulator bonds, in the amount of \$1.5 million.

State of Kansas
Employment Statistics
 June 30, 2001

Major Employers in Kansas

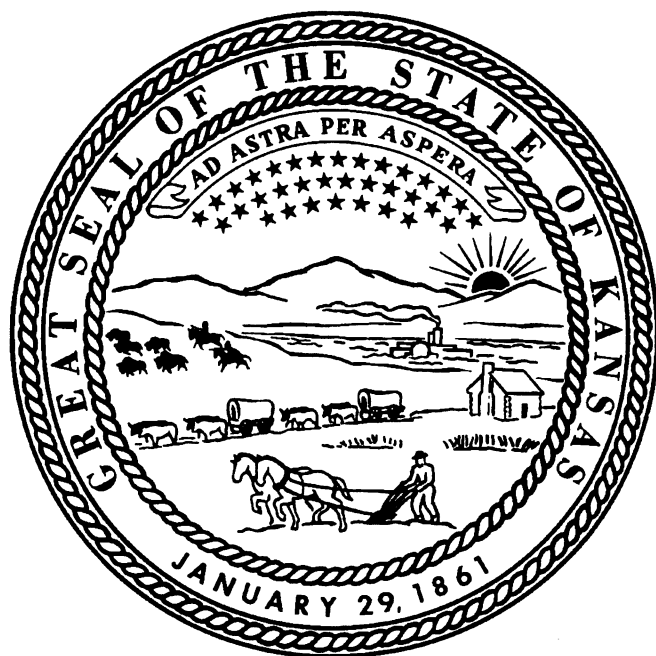
Company	Location	Employees	Type of Business
Sprint/United Management	Overland Park	18,000	Telecommunications and headquarters
The Boeing Company	Wichita	16,800	Aircraft manufacturing
Cessna Aircraft	Wichita	12,500	Aircraft manufacturing and headquarters
Raytheon Aircraft	Wichita	10,000	Aircraft manufacturing and headquarters
IBP, Inc.	Emporia, Holcomb	5,500	Meat Packing
University of Kansas Medical Center	Kansas City	4,954	Medical services and education
Dillon's Food Stores	Hutchinson, statewide	4,850	Retail grocery stores
Burlington Northern Sante Fe	Kansas City, Topeka	4,600	Railroad
Southwestern Bell	Statewide	4,500	Telecommunications
Via Christi Regional Medical Center	Wichita	4,327	Medical services
Farmland National Beef	Dodge City, Liberal	4,000	Meat packing
Western Resources	Topeka, statewide	4,000	Electric utility and headquarters
Bombardier (Learjet Inc.)	Wichita	3,640	Aircraft manufacturing
General Motors	Kansas City	3,200	Motor vehicles and car bodies
Wesley Medical Center	Wichita	2,725	Medical services
Hallmark	Lawrence, Topeka, Leavenworth	2,660	Greeting cards
Goodyear Tire and Rubber Co.	Topeka	2,500	Tire manufacturing
Koch Industries	Wichita	2,200	Oil, chemical technology and other products
Tony's Pizza	Salina	2,100	Frozen Foods
Yellow Corporation	Overland Park	2,000	Transportation services and headquarters
Associated Wholesale Grocers	Kansas City	1,800	Food distribution
Honeywell	Olathe	1,720	Electronics and aviation instruments
Applebee's International	Overland Park	1,650	Restaurant Management and headquarters

Source: Kansas Department of Commerce and Housing Webpage; Dun & Bradstreet, Million Dollar Database; Wichita Business Journal, Book of Lists, 2000; Kansas City Business Journal, Book of Lists, 2000.

State of Kansas
State General Fund
June 30, 2001

Comparison of Resources Available for Appropriations-Budget Basis
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	Expressed in Thousands		
	2001	2000	Increase/ (Decrease)
RESOURCES AVAILABLE FOR APPROPRIATIONS			
State Treasury's Balance at June 30 (Budget Basis)	\$ 424,204	\$ 434,584	\$ (10,380)
Less Outstanding Obligations			
Unredeemed Warrants and Vouchers Payable	21,560	20,494	1,066
Unliquidated Encumbrances	36,964	36,068	896
Total Outstanding Obligations at June 30	58,524	56,562	1,962
UNENCUMBERED BALANCE AVAILABLE TO FINANCE SUCCEEDING FISCAL YEAR APPROPRIATIONS AT JUNE 30 (Budget Basis) BEFORE REAPPROPRIATIONS	\$ 365,680	\$ 378,022	\$ (12,342)
Less Appropriation Balances Reappropriated	22,783	35,673	(12,890)
UNENCUMBERED BALANCE AVAILABLE TO FINANCE SUCCEEDING FISCAL YEAR APPROPRIATIONS AT JUNE 30 (Budget Basis)	\$ 342,897	\$ 342,349	\$ 548
Reconciliation of Budgetary Reporting			
Adjust to report pooled investments at fair value	(115)	10,075	(10,190)
Adjust to exclude sales tax adjustment	0	(14,904)	14,904
UNENCUMBERED BALANCE AVAILABLE TO FINANCE SUCCEEDING FISCAL YEAR APPROPRIATIONS AT JUNE 30	\$ 342,782	\$ 337,520	\$ 5,262



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